

# Summary of JHF Monthly Mortgage-backed Securities ("JHF Monthly MBS")

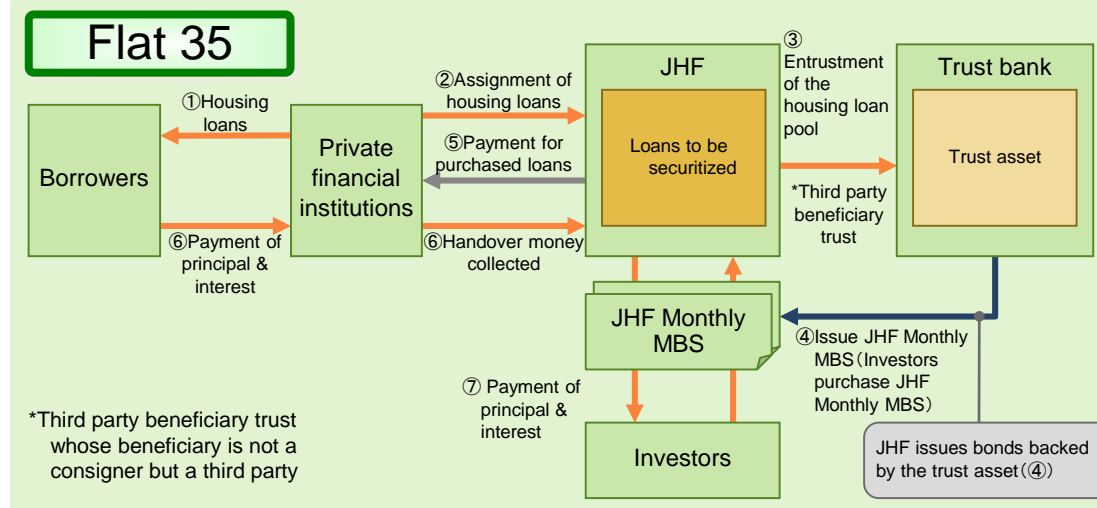
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Ver. April 2024

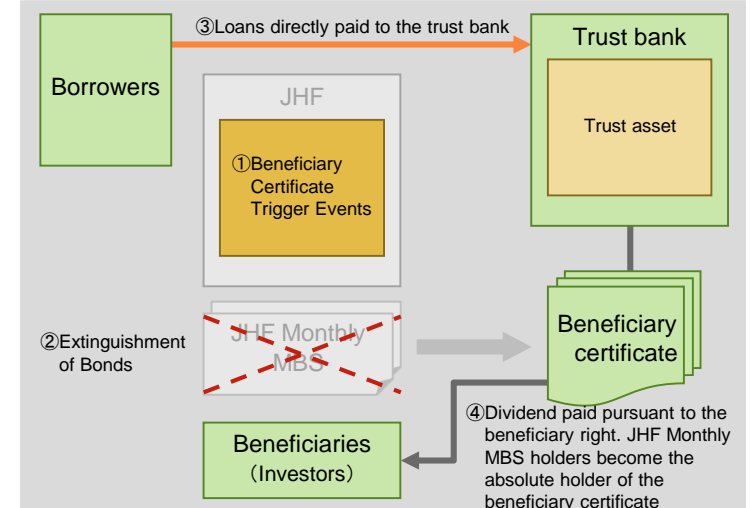
# Securitization support business (“Purchase Program”) and JHF Monthly MBS

- Private financial institutions partnered with Japan Housing Finance Agency (“JHF”) offer and execute long-term fixed-rate housing loans (“Flat 35”)
- JHF purchases Flat 35 from the private financial institutions and entrusts Flat 35 to whom JHF concludes trust agreements and establishes a third-party beneficiary trust for the holders of JHF Monthly Mortgage-backed securities (herein after “JHF Monthly MBS”)
- JHF issues bonds backed by trust assets
- Should a Beneficiary Certificate Trigger Event occurs, the rights under JHF Monthly MBS shall be extinguished, and upon completing the beneficiary determination procedure, JHF Monthly MBS will be replaced with the beneficiary certificate backed by the sole credit of the trust asset

## Under normal circumstances



## After Beneficiary Certificate Trigger Events



### Beneficiary Certificate Trigger Events

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

# Main features of JHF Monthly MBS

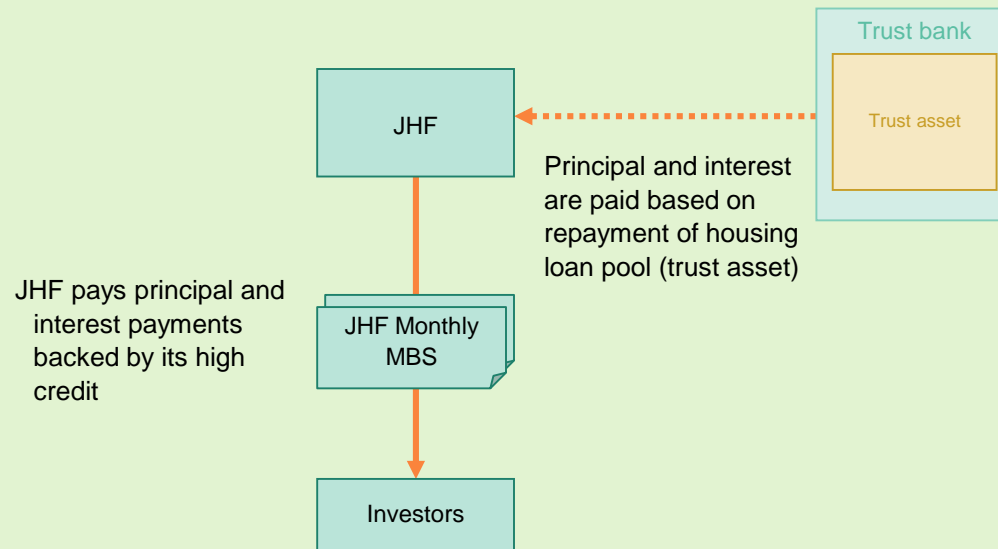
- Point 1 Asset-backed \*Agency bond
- Point 2 Homogeneous and regionally-diversified housing loan pools
- Point 3 JHF bearing the burden of credit risks of defaulted loans
- Point 4 Achievement of AAA ratings by over-collateralization
- Point 5 Monthly payment of principal and interest in accordance with the repayment of entrusted housing loan pools, leading to the application of monthly pass-through payment

\* Agency Bonds are issued by government agencies called as “ Zaito Agencies.”

# Asset-backed Agency bond

- JHF Monthly MBS is an asset-backed Agency bond
- Prior to the Beneficiary Certificate Trigger Event, JHF is responsible for all principal and interest payments backed by its high credit. After the Beneficiary Certificate Trigger Event, JHF Monthly MBS is no longer a Agency bond but converted to a beneficiary certificate
- The risk weight of the Agency bonds under BIS regulations (Basel standardized approach) is 10 percent according to Japanese FSA

## Before Beneficiary Certificate Trigger Events



# Homogeneous and regionally-diversified housing loan pools

- Housing loan pools are regionally well diversified, because JHF purchases housing loans nationwide
- Housing loan pools are homogeneous, because JHF applies standardized uniform criteria(“Purchase standards”) to all housing loans when purchasing the loans from private financial institutions
- JHF Monthly MBS is backed only by JHF eligible loans enabling straightforward cash flow analysis, because JHF sets eligibility standards of housing loans, such as timing of loan execution and other lending criteria, for loans JHF purchases



## Point 3 JHF bearing the burden of credit risks of defaulted loans

- JHF continues its payment of principal and interest of delinquent loans up to three months
- JHF purchases the defaulted loans such as four-month delinquent loans and excludes them from the trust asset. In such case, principal of such loans will be prepaid in an amount equal to the ratio of the outstanding principal amount of JHF Monthly MBS divided by the outstanding amount of entrusted housing loans\*. This payment method is called “Cancellation Method”\*\*, \*\*\*\*

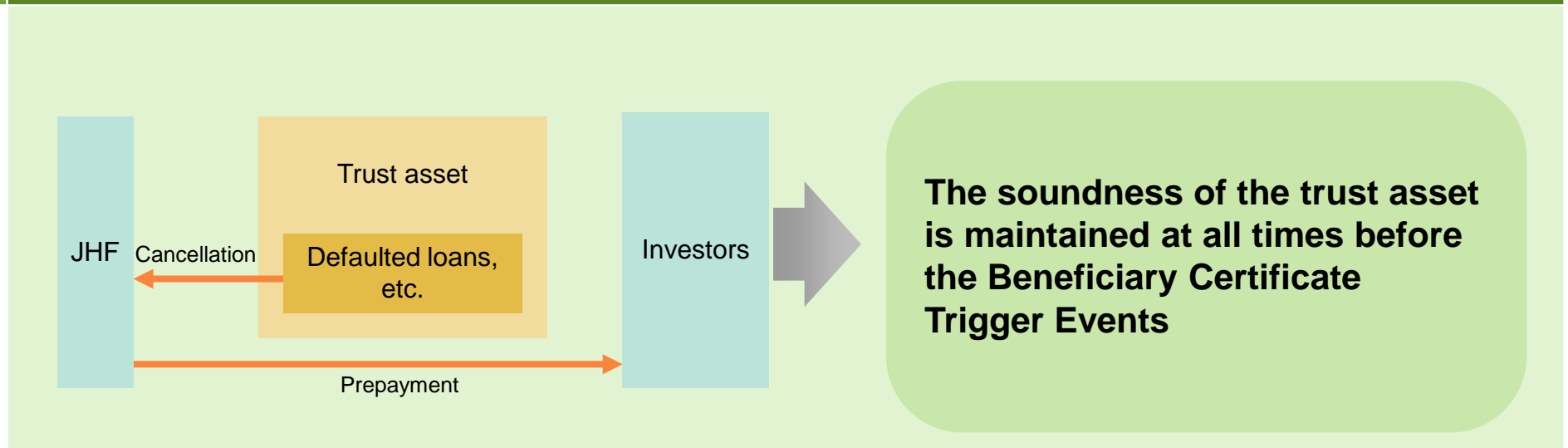
\* The outstanding amount of entrusted housing loans is calculated by assuming no delinquency of housing loans

\*\* As for S-series MBS\*\*\* and Monthly MBS issued by the former-Government Housing Loan Corporation (“GHLC”), JHF replaces defaulted loans, such as loans delinquent for four months, with performing loans having similar loan conditions and maintains the soundness of the entrusted housing loan pools. This method is called “Replacement Method”\*\*\*\*

\*\*\* S-series MBS was issued from FY2005 to FY2009 and backed by housing loans under the Direct Lending Business and issued for refinancing purpose of the Direct Lending Business

\*\*\*\* The Cancellation Method and Replacement Method are applicable only prior to the Beneficiary Certificate Trigger Events

### Image of Cancellation Method



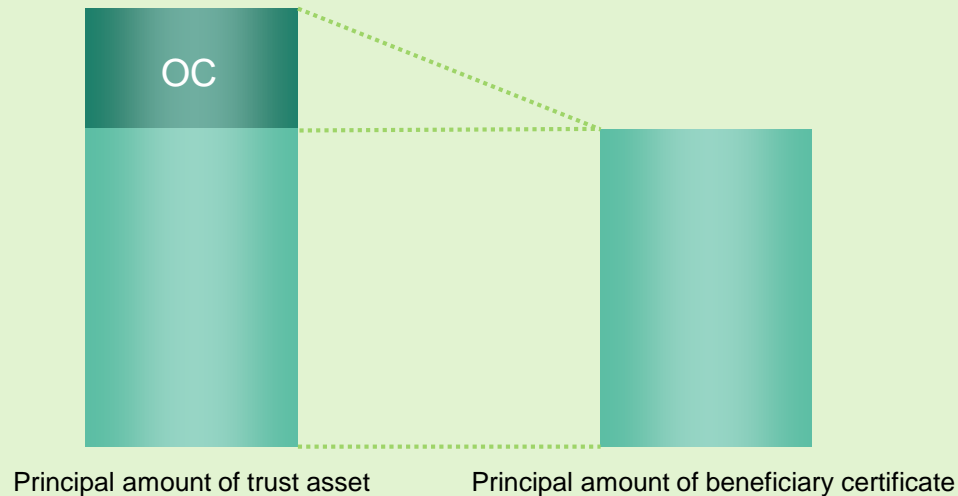
# Achievement of AAA ratings by over-collateralization (“OC”)

- Sufficient level of OC is provided to achieve the highest AAA ratings at the time of JHF Monthly MBS issuance
- By minimizing the associated credit risk, JHF Monthly MBS investors are able to invest by focusing just on interest-rate risks and prepayment risks

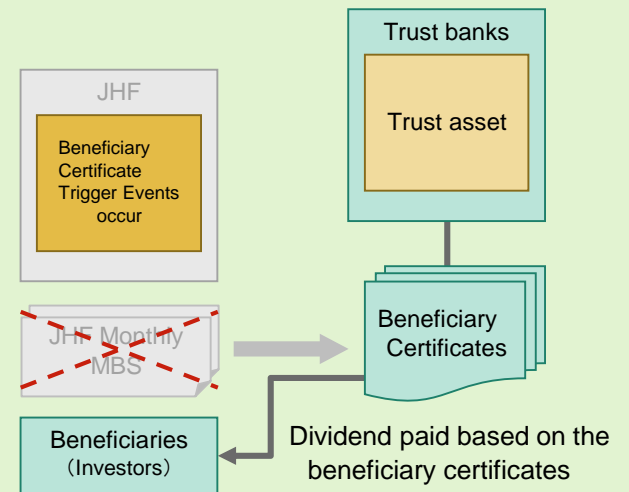
## Concept of over-collateralization

At the time of issuance

JHF Monthly MBS receives **AAA** ratings from S&P and R&I



## After Beneficiary Certificate Trigger Events



\* Above chart describes an image of OC before and after the Beneficiary Certificate Trigger Events. Therefore, the chart does not represent the actual OC ratio.

\*\* JHF receives A+/AA+ issuer credit ratings from S&P/R&I (As of March 31, 2024). For the latest issuer credit ratings, visit the website of each rating agency.

\*\*\* The rating of JHF Monthly MBS given by S&P has an identifier (“sf”) that indicates structured finance

Point 5

# Monthly payment of principal and interest in accordance with the repayment of entrusted housing loan pools, leading to application of monthly pass-through payment – Part 1

- JHF Monthly MBS is an asset-backed security backed by a pool of housing loans
- JHF pays to the investors the principal and interest of JHF Monthly MBS in accordance with the repayment amount of the entrusted housing loan pools backing JHF Monthly MBS
- As the principal and interest of housing loans are paid monthly in general, investors of JHF Monthly MBS are also paid monthly
- Housing loans are paid as scheduled and can also be prepaid. Thus, the principal and interest payment of JHF Monthly MBS fluctuate in accordance with the prepayment condition of underlying housing loans
- Such principal and interest payment are called “Monthly Pass-through Payment”

Image of payment of principal and interest with no prepayment, equivalent to 0% PSJ of housing loan

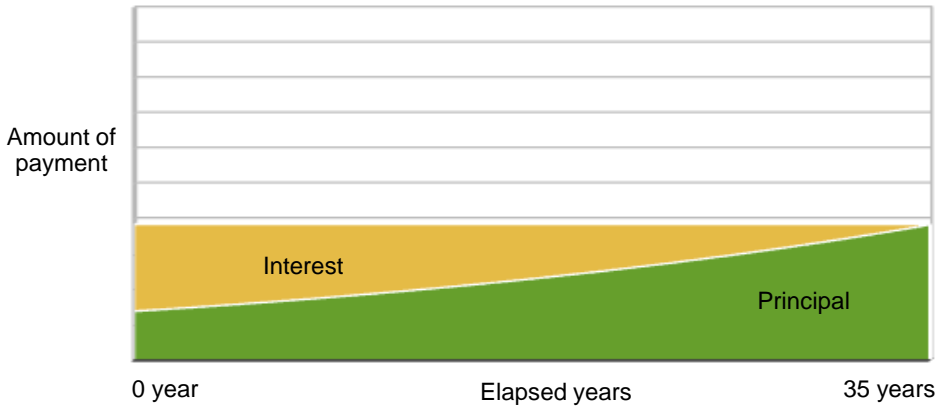


Image of payment of principal and interest with prepayment of 5% PSJ applied to housing loan

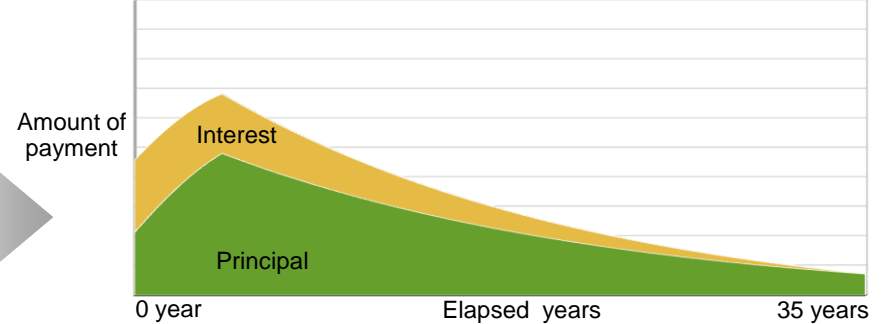
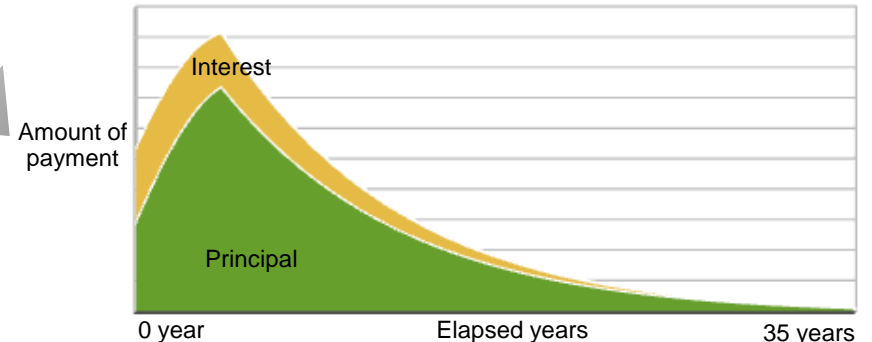


Image of payment of principal and interest with prepayment of 10% PSJ applied to housing loan



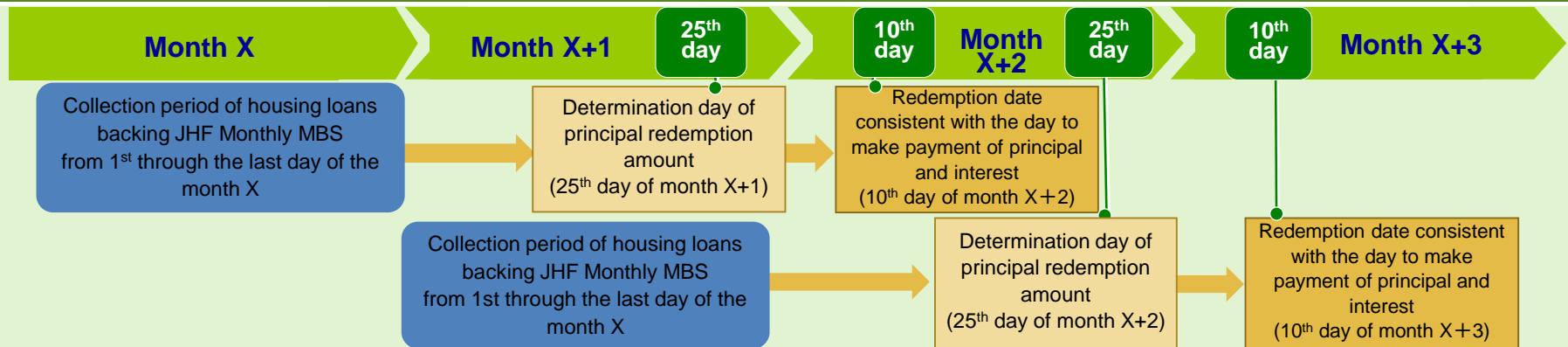
\* The image of payment of principal and interest assumes JHF Monthly MBS backed by 35-year housing loan with equal installment and no bonus payment just for simplicity  
 \*\* Above percentage of PSJ indicates the speed of prepayment of principal and interest according to the Prepayment Standard Japan (“PSJ”) model  
 \*\*\* The calculation assumes no clean-up call even if the assumed outstanding trust pool balance becomes 10% or less



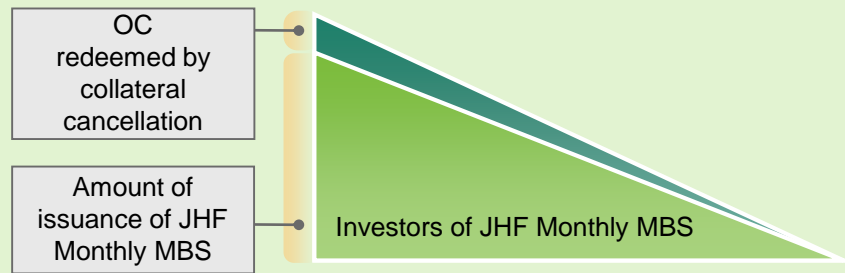
# Monthly payment of principal and interest in accordance with the repayment of entrusted housing loan pools, leading to application of monthly pass-through payment – Part 2

- According to the month X collection of the actual principal amount, JHF Monthly MBS principal redemption amount on 10<sup>th</sup> day of month X+2 is determined on the 25<sup>th</sup> day of month X+1
- Before Beneficiary Certificate Trigger Events, principal and interest of JHF Monthly MBS is pro-rated and paid accordingly to the outstanding amount of JHF Monthly MBS and OC ratio. This payment is called “Pro-rata Payment”
- In case of the Beneficiary Certificate Trigger Events, principal payment of the beneficiary certificate is accelerated in lieu of the payment to OC. This payment is called “Sequential Payment”

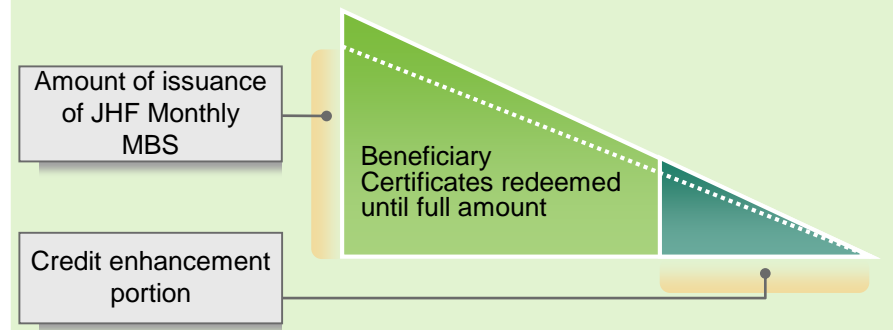
## Image of schedule for payment of principal and interest of JHF Monthly MBS



### Before Beneficiary Certificate Trigger Events

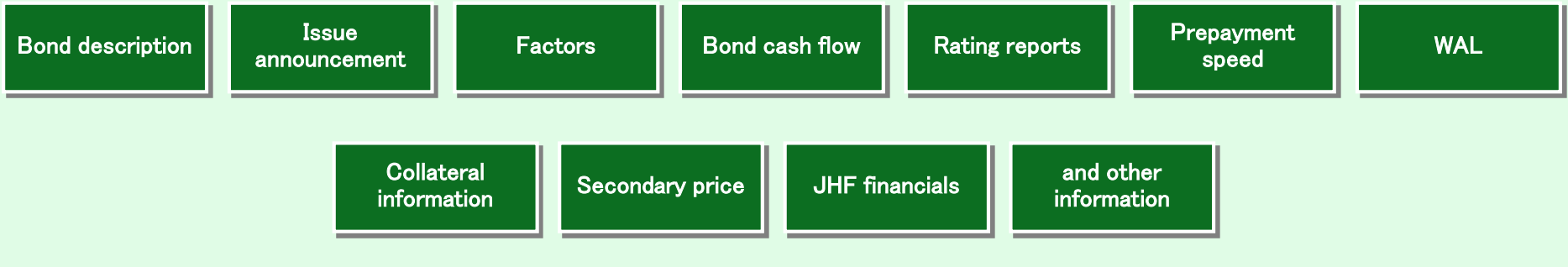


### After Beneficiary Certificate Trigger Events



# Where to find information about JHF Monthly MBS

- Information related to JHF and JHF Monthly MBS are available on JHF website and on information vendor's screens
- Rating agencies provide their views by rating reports and news letters
- Prospective Lead Managers and Underwriters provide data to assist decision-making on investment of JHF Monthly MBS



Information vendors	Rating agencies	Prospective Lead Managers and Underwriters
Bloomberg Refinitiv	R&I S&P	<ul style="list-style-type: none"> <li>• Barclays Securities Japan Limited</li> <li>• BNP Paribas Securities(Japan) Limited</li> <li>• Daiwa Securities Co. Ltd.</li> <li>• Goldman Sachs Japan Co., Ltd.</li> <li>• BofA Securities Japan Co., Ltd.</li> <li>• Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.</li> <li>• Mizuho Securities Co., Ltd.</li> <li>• Nomura Securities Co., Ltd.</li> <li>• SMBC Nikko Securities Inc.</li> </ul>

# Summary of funding plan (FY2024)

## Actual issuance amount and funding plan by JHF

US \$ billion

	FY2023		FY2024
	Budget	Actual	Budget
Mortgage-backed securities ("JHF Monthly MBS")	17.860	7.662	13.693

US\$1=JPY100



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

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