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Research

Japan Housing Finance Agency's Series 148 Structured Issuance Assigned Preliminary 'AAA (sf)' Rating

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OVERVIEW

- The JHF series 148 fixed-rate residential mortgage-secured pass-through notes are a securitization JHF is to issue. A pool of residential mortgage loans will ultimately back the notes.
- We are assigning our preliminary 'AAA (sf)' rating to the notes based on our view of the transaction's legal structure, credit support, and pool characteristics, among other factors.
- Because of the structure of this transaction, the rating on the notes depends to an extent on JHF's credit quality.

TOKYO (S&P Global Ratings) Aug. 15, 2019--S&P Global Ratings today said it has assigned its preliminary 'AAA (sf)' rating to Japan Housing Finance Agency's (JHF) series 148 fixed-rate residential mortgage-secured pass-through notes. JHF will set the expected issue amount at or at less than ¥200.0 billion in mid-August.

The JHF series 148 notes are a securitization JHF is to issue. A pool of residential mortgage loans that JHF purchased from private-sector financial institutions will ultimately back the notes. We base the preliminary rating on the notes on our view of the transaction's legal structure, credit support, and pool characteristics, among other factors.

Subsequent information may lead us to assign a final rating different from the

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preliminary rating. We will assign a final rating after JHF finalizes the amount and exact terms of the notes and we complete a full rating analysis, including a review of the final pool, cash flow modeling, final structure, transaction documents, and legal opinion.

Our preliminary rating reflects our opinion on the likelihood of the timely payment of interest, or interest distribution in the case of beneficiary certificates, allowing for a three-month grace period, and the ultimate repayment of principal by the transaction's legal final maturity date.

Our preliminary rating reflects the following:

- We assume a foreclosure frequency for the expected loan receivables of about 36.4% under a stress level commensurate with our 'AAA' rating and about 4.1% under a stress level commensurate with our 'B' rating (base-case scenario). These rates, which reflect our view of the credit quality of the underlying assets, are prior to adjustments we apply to account for the transaction's convertible pro rata pay structure.
- We also assume a loss severity rate of about 43% for defaulted receivables under our 'AAA' stress scenario.
- We conducted a cash flow analysis based on the foreclosure frequency and loss severity rate assumptions. As a result, under a 'AAA' stress scenario, we concluded that interest payments and principal repayments on the notes and beneficiary certificates (subsequent to a beneficiary trigger event) would be made as scheduled (allowing for a three-month grace period with respect to payment of interest, or interest distribution in the case of the beneficiary certificates).
- Prior to a beneficiary certificate trigger event and if receivables in the collateral pool default or are delinquent for four months, JHF will eliminate these receivables from the collateral pool and amortize the notes by the amount of these receivables to maintain the initial level of overcollateralization in the trust. After a beneficiary certificate trigger event, the overcollateralization will mitigate the credit risk of the transaction's underlying mortgage loans and interest rate risk (interest on the mortgage loans less the sum of interest payments on the beneficiary certificates and transaction costs).
- In our view, the transaction has limited exposure to setoff risk. This is because when JHF purchases loans from private-sector financial institutions, the agency secures the obligors' unconditional consent to the transfer of the loans and the obligors relinquish their rights to use any claims they have with the financial institutions to offset their mortgage debt.
- After considering the structural features of this transaction--including the transfer of collections from the collateral receivables, the level of liquidity protection, and the lack of a credit enhancement floor--we believe the rating on the notes depends to an extent on JHF's credit quality.

RELATED CRITERIA

- Counterparty Risk Framework: Methodology And Assumptions, March 8, 2019

- Incorporating Sovereign Risk In Rating Structured Finance Securities: Methodology And Assumptions, Jan. 30, 2019
- Methodology And Assumptions For Rating Japanese RMBS, Dec. 19, 2014
- Global Framework For Assessing Operational Risk In Structured Finance Transactions, Oct. 9, 2014
- Global Framework For Cash Flow Analysis Of Structured Finance Securities, Oct. 9, 2014
- Methodology: Credit Stability Criteria, May 3, 2010
- Standard & Poor's Revises Criteria Methodology For Servicer Risk Assessment, May 28, 2009

RELATED RESEARCH

- Outlook Assumptions For The Japanese Residential Mortgage Market, Jan. 15, 2019
- Japan Structured Finance 2019 Outlook: Securitizations Should Brush Off The Consumption Tax Hike, Dec. 27, 2018
- Japanese Structured Finance Scenario And Sensitivity Analysis 2017: The Effects Of The Top Five Macroeconomic Factors, Dec. 26, 2017
- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016
- Overview Of Japan Housing Finance Agency's Structured Notes, April 21, 2015
- Stable Japanese RMBS Fundamentals Reflect Low Unemployment And Interest Rates, Nov. 11, 2014

PRELIMINARY RATING ASSIGNED

Japan Housing Finance Agency

JHF series 148 fixed-rate residential mortgage-secured pass-through notes due September 2054

Preliminary rating	Amount	Coupon type	Overcollateralization ratio
AAA (sf)	Pending*	Fixed rate	21.2%

The transaction's closing date will be Aug. 28, 2019.

*JHF will set the expected issue amount at or at less than ¥200.0 billion in mid-August. Our calculations--based on the outstanding balance of the expected loan pool and the notes' overcollateralization ratio--result in an expected issue amount of ¥157.6 billion.

NOTES

We define the overcollateralization ratio as: 1-(A+B)/(C-D-E)

A: the rated obligations and equally ranked obligations

B: prior obligations to the rated obligations

C: underlying assets (including cash)

D: liquidity reserves

E: obligations, except for senior, mezzanine, or subordinate obligations (seller's interest, etc.)

The full report will be available in Japanese on S&P Global Research Online at www.researchonline.jp. An English-language report will be available to subscribers of RatingsDirect at www.capitaliq.com. Ratings information can also be found on S&P Global Ratings' public website at www.standardandpoors.com; under Ratings in the left navigation bar, select Find a Rating. Members of the media may reserve a copy by e-mail at tokyo.pressroom@spglobal.com or by phone at (81) 3-4550-8411.