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Japan Housing Finance Agency's Series T-9 Structured Issuance Assigned Preliminary 'AAA (sf)' Rating

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Overview

- The JHF series T-9 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) Jan. 21, 2021--S&P Global Ratings today said it has assigned its preliminary 'AAA (sf)' rating to Japan Housing Finance Agency's (JHF) series T-9 fixed-rate residential mortgage-secured pass-through notes. The issue amount for the notes when the transaction closes in early February will be ¥50 billion.

The JHF series T-9 notes are a securitization JHF is to issue. The transaction's closing date is likely to be Feb. 3, 2021. A pool of residential mortgage loans directly extended by JHF's predecessor, Government Housing Loan Corp. (GHLC), 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 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 11.6% under a stress level commensurate with our 'AAA' rating and about 2.1% 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 16% for defaulted receivables under our 'AAA' stress scenario.
- We apply projected losses (net loss rate after accounting for recoveries from defaulted loans) subject to a floor of 0.35% in our base-case scenario and 4.0% at the 'AAA' rating level, as set out in our Japanese RMBS criteria (see "Methodology And Assumptions For Rating Japanese RMBS," published Dec. 19, 2014).
- 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 because a pool of residential mortgage loans directly extended by GHLC ultimately backs the notes and JHF is not a deposit-taking financial institution.
- 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.

We expect the notes, which have a fixed-rate coupon, to have overcollateralization of 2.5%.

Related Criteria

- Global Framework For Payment Structure And Cash Flow Analysis Of Structured Finance Securities, Dec. 22, 2020
- 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
- Principles Of Credit Ratings, Feb. 16, 2011
- Methodology For Servicer Risk Assessment, May 28, 2009

Related Research

- Japan Structured Finance Outlook: Recovery Or Relapse? Jan. 8, 2021
- Outlook For The Japanese Residential Mortgage Market, Jan. 8, 2021
- Overview Of Japan Housing Finance Agency's Structured Notes, Nov. 19, 2020
- How Will COVID-19 Affect Japanese Structured Finance?, April 8, 2020
- 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

Ratings List

Preliminary Rating Assigned

Japan Housing Finance Agency

¥50 billion JHF series T-9 fixed-rate residential mortgage-secured pass-through notes due August 2034

Preliminary rating	Amount	Coupon type	Overcollateralization ratio
AAA (sf)	¥50 bil.	Fixed rate	2.5%

The transaction's closing date will be Feb. 3, 2021. 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.