

# Japan Housing Finance Agency's Series 204 Structured Issuance Assigned 'AAA (sf)' Rating

April 25, 2024

## Overview

- The JHF series 204 fixed-rate residential mortgage-secured pass-through notes are a securitization that JHF issued. A pool of residential mortgage loans ultimately backs the notes.
- We are assigning our '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 structural features of this transaction, the rating on the notes depends to an extent on JHF's credit quality.

TOKYO (S&P Global Ratings) April 25, 2024--S&P Global Ratings today said it has assigned its 'AAA (sf)' rating to Japan Housing Finance Agency's (JHF) ¥73.6 billion series 204 fixed-rate residential mortgage-secured pass-through notes.

The JHF series 204 notes are a securitization that JHF issued. A pool of residential mortgage loans that JHF purchased from private-sector financial institutions ultimately backs the notes. We base our rating on the notes on our view of the transaction's legal structure, credit support, and pool characteristics, among other factors.

Our 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 rating reflects the following:

- We assume a foreclosure frequency for the loan receivables in the notes' underlying asset pool of about 35.1% under a stress level commensurate with our 'AAA' rating and about 3.9% under a stress level commensurate with our 'B' rating. 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 the stress level commensurate with our 'AAA' rating, we concluded that interest payments and principal repayments on the notes and beneficiary certificates (subsequent to an event triggering issuance of beneficiary certificates) would be made as scheduled (allowing for a three-month grace period with respect to payment of

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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' consent to the transfer of the loans and the obligors relinquish their rights to use any claims, including their right to offset their mortgage debt against the financial institutions.
- 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

- Global Methodology And Assumptions: Assessing Pools Of Residential Loans--Asia-Pacific Supplement, April 4, 2024
- Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- 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
- Global Methodology And Assumptions: Assessing Pools Of Residential Loans, Jan. 25, 2019
- 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: Inflation Entrenches? Jan. 11, 2024
- ESG Industry Report Card: Residential Mortgage-Backed Securities, March 31, 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

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- Global Structured Finance Scenario And Sensitivity Analysis 2016: The Effects Of The Top Five Macroeconomic Factors, Dec. 16, 2016

## Rating Assigned

### Japan Housing Finance Agency -- ¥73.6 billion JHF series 204 fixed-rate residential mortgage-secured pass-through notes due May 2059

- ¥73.6 billion; 1.21% fixed-rate coupon; 22.4% overcollateralization: AAA (sf)

The transaction closed on April 25, 2024. 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 ratio in this report represents the transaction structure's minimum maintenance ratio for the overcollateralization of pro rata pay.

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