

# JHF No.190 Monthly MBS Issue

Strategic Memorandum DSBE024

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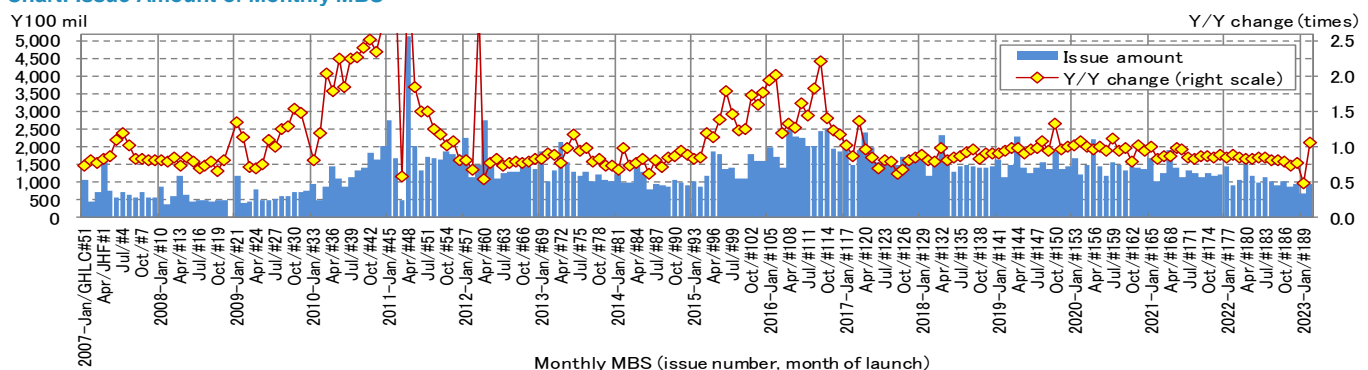
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Daiwa Securities Co. Ltd.

## ➤ JHF shows market it recognizes importance of demand by smoothing out issuance

- The Japan Housing Finance Agency (JHF) plans to issue its No. 190 Monthly MBS. The coupon will be set by referencing the yield of the on-the-run 10-year JGB.
- JHF RMBS are issued with home loans as the underlying asset. The assets eligible to be used as collateral for the No. 190 Monthly MBS total Y119.2bn, which are Flat 35 mortgages originated in December and January. If the entire amount of candidate trust assets is used as collateral at a credit enhancement ratio of 20.0%, which is what it was the previous issue, the issuance amount will be Y95.4bn.
- The No. 190 Monthly MBS is set to be the first in a long while that is larger than the year-ago issue (the February 2022 issue, the No. 178, was Y90.7bn). The size of the No. 189 MBS, which launched in January, was smoothed out with a lower-than-usual amount of collateral assets in response to the considerable decline in investor demand since the BOJ let up on its yield curve control policy in December. The amount of assets eligible to be used as collateral for the upcoming issue has thus increased.
- Based on our prepayment model, we estimate a WAL of 10.55 years (based on 9 February closing prices; same hereinafter). The expected WAL based on the JHF's PSJ Forecast Statistical Data is 9.52 years.
- At a launch spread the same as the previous issue of 59bp, the coupon of the upcoming issue will be 1.08%. In this case, the PSJ model YCS would be 28.8bp, 0.1bp higher the previous issue. The PSJ model YCS of the previous issue in the secondary market is 24.7bp, which would mean the upcoming issue will have a coupon of 1.04% and launch spread of 55bp.
- We think it appropriate that supply and demand will meet at the launch spread of about 52-59bp. If so, the coupon would be about 1.01-1.08%.

Chart: Issue Amount of Monthly MBS



Source: JHF; compiled by Daiwa Securities.

Note: Estimate for No. 190 issue.

## Issuance of JHF MBS and Situations of Flat 35

### No. 190 to be launched in February

The Japan Housing Finance Agency (JHF) plans to price (launch) its No.190 MBS this month. Issuance terms are determined by the spread-pricing method, in which a new issue's coupon is set on the launch date by adding a launch spread—which is determined based on investor demand—to the compound yield on a benchmark 10-year JGB (JB369 in this case) at the time of the launch. The launch date is scheduled in mid-February, and the payment date is scheduled on 24 February.

### Possible issue size Y95.0bn

Of the Y119.2bn of Flat 35 mortgages eligible to be used as collateral for the No. 190 MBS, about 40% were originated in December and 60% in January. The issue is likely to have the highest ratings from S&P and R&I. The issue amount is to be announced on 10 February. If the entire amount of candidate trust assets is used as collateral at a credit enhancement ratio of 20.0%, which is what it was the previous issue, the issuance amount will be Y95.4bn.

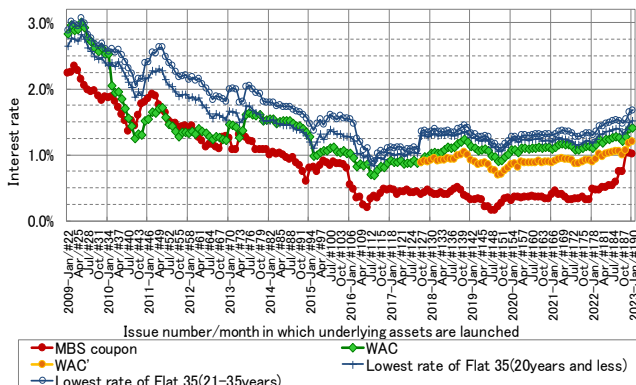
### Flat 35 rates have risen but not that much

The lowest retail rate on the mortgages was 1.68% (including group credit life insurance premiums), up 0.03ppt m/m and up 0.38ppt y/y. The lowest rate on Flat 20 mortgages (with terms of 20 years or less) was 1.52%, up 0.03ppt m/m and up 0.34ppt y/y. However, the Flat 35 rates have not risen much, given the relationship with the coupon of monthly MBS issues until September 2022.

### Sharp rise in possible size of upcoming issue owing to smoothed-out size of previous issue

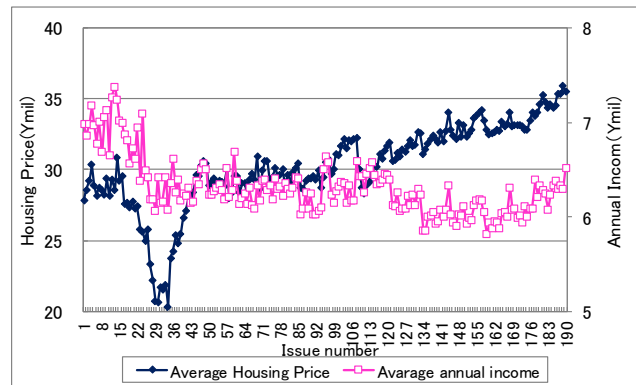
Of the candidate Flat 35 mortgages, about 40% were originated in December, ones that could have been used for the January 2023 issue (the No. 189) but were carried over. The smoothing out of the January issue's size, in light of the decline in investor demand since the BOJ let up on its yield curve control policy in December, shows the JHF's recognition of the importance of the supply-demand balance and stance of communicating with the market. Depending on demand forecasts, an even smaller amount of collateral assets can be chosen from the candidate pool, without regard for the smoothing process, and the resulting issue size would be smaller than the possible amount.

Chart: Interest Rate of Flat 35 Loans and JHF MBS (monthly trend)



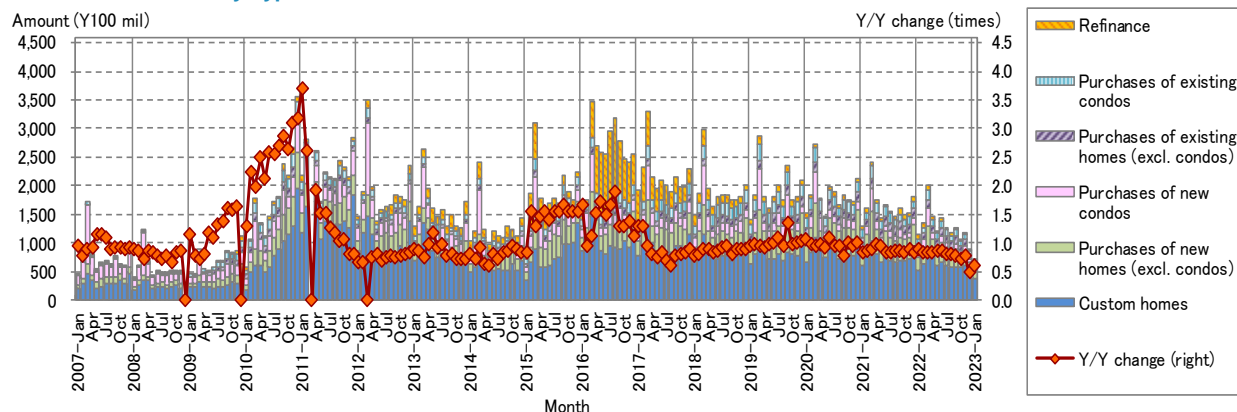
Source: JHF; compiled by Daiwa Securities.

Chart: Home Prices and Flat 35 Borrowers' Average Income



Source: JHF; compiled by Daiwa Securities.

Chart: Flat 35 Loans by Type of Loans



Source: JHF; compiled by Daiwa Securities.

## Terms for the previous issue

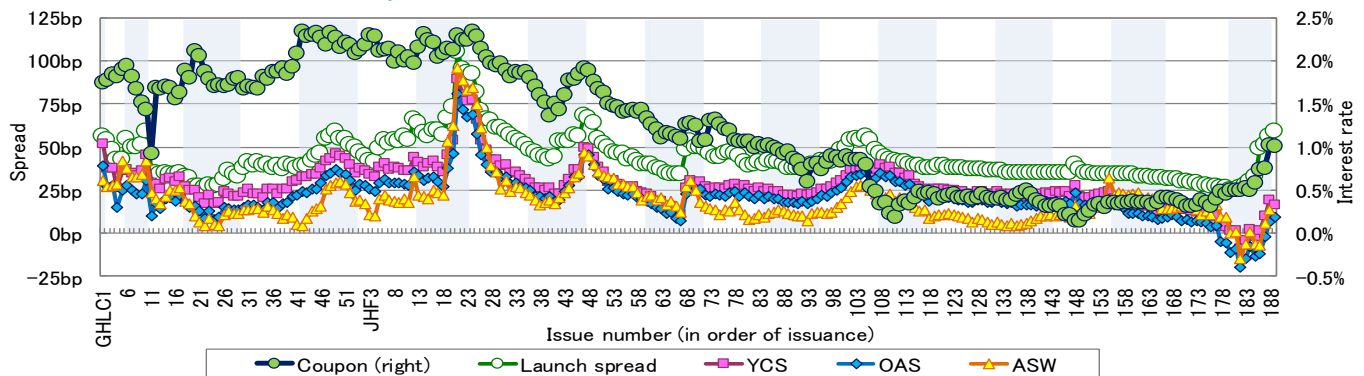
### Launch spread of 59bp and coupon of 1.01%

The No. 189 (Y70.4bn) was launched on 25 January with a coupon of 1.01 %. The coupon was determined by adding the launch spread of 59bp on the compound yield of benchmark JB369. The OAS at launch (our estimate; same hereinafter) stood at 9.4bp (2.8bp higher than previous issue) and the YCS was 16.7bp (2.7bp lower than the previous issue). Based on the PSJ Forecast Statistical Data, the yield curve spread (YCS) was 28.7bp (2.7bp lower than previous issue) at the time of the launch. The widening of the OAS, in connection with technical factors, stems from interest rate model adjustments.

### In response to sharp decline in demand following BOJ's easing of yield curve control policy

The coupon rate is 1bp lower than the previous issue's but still above the 1% threshold. Demand in the primary market has been focused on the absolute coupon rate because the yield on the on-the-run 10-year JGB has become less and less of a benchmark since 2H 2022, owing to the BOJ's yield curve control policy, and particular aspects of the curve are finely suppressed. The YCS appears effective, but the nominal spread necessarily widened. After the BOJ widened the range for its yield curve control policy also, the yield on the on-the-run 10-year JGB did not regain its usefulness as a benchmark. However, the logic of the BOJ's guidance on ending its easing disappeared, and investor demand cooled to an unprecedented extent. The JHF went out of its way to communicate with the market and smooth out the issue size in response to the decline in demand for long-term bonds.

Chart: Issuance Terms for JHF Monthly MBS



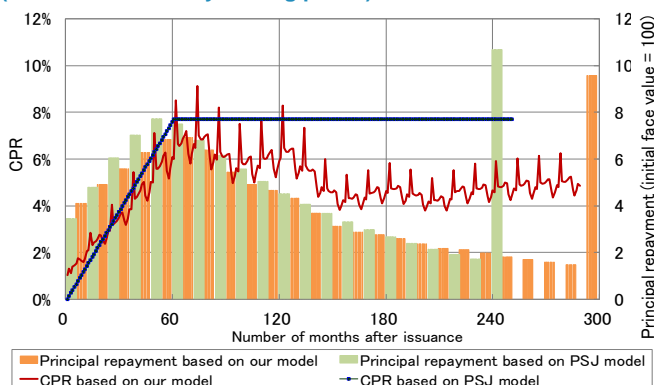
Source: JHF and our estimates.

Note: The background colors indicate different fiscal years.

### Different risk premiums depending on expected cash flow distribution

With regard to the pricing of JHF MBS, it should be noted that the risk premium varies depending on the expected cash flow distribution. A recent trend has been for monthly new bond issuance to assume a longer cash flow distribution in our prepayment forecast model than in the PSJ model's view using PSJ forecast statistics. As such, recently the YCS measured at the time of new bond issuance tends to be smaller in our model due to the positive yields.

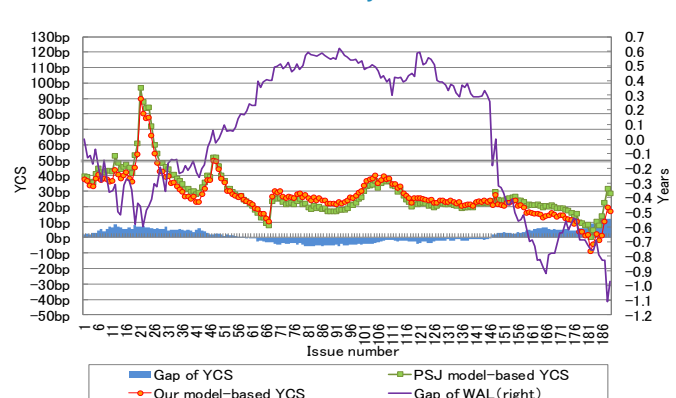
Chart: Expected CPR & Principal Repayment for No. 190 Issue (based on 9 February closing prices)



Source: Our estimates.

Note: Although principal repayments are made every month, the graph shows annual repayment totals.

Chart: Difference in YCS for Monthly MBS at Launch



Source: Our estimates.

## Cash flow characteristics and issuance terms for No. 190

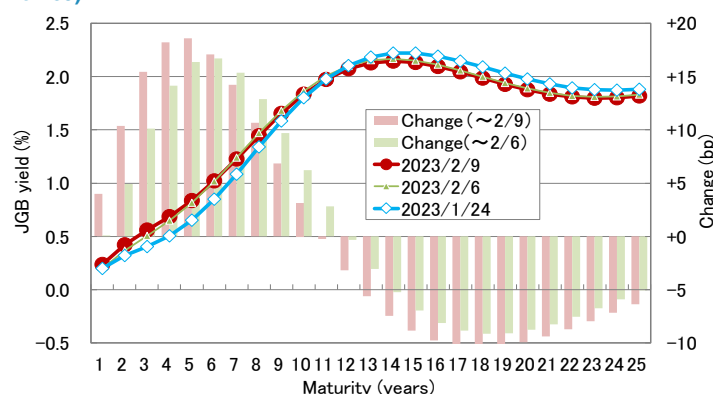
We take a look at the issuance terms for the upcoming issue. Based on expected cash flow using our prepayment model and the PSJ model, we estimate the issuance terms (the coupon and launch spread) and the risk premiums.

### Expected maturity of 9~10 years

The expected cash flow distribution for the upcoming issue (the chart on the previous page, based on 9 February closing prices; hereinafter the same unless otherwise noted) is about the same as the previous issue (at the time of its launch; same hereinafter).

- Based on our model, the expected WAL is 10.55 years (10.54 years for the previous issue) and the expected final maturity 24.1 years (23.8 years). The PSJ forecast is 6.61% (vs. 6.34% for the previous issue).
- The PSJ Calculation Statistical Value (average) is 7.71% (vs. 7.84% for the previous issue). Accordingly, the expected WAL is 9.52 years (vs. 9.47 years for the previous issue) and the expected final maturity 20.6 years (20.7 years).

Chart: Change in 3Y-Forward Rate (from the day before launch day of No.189)



Source: JHF; compiled by Daiwa Securities.

Note: WAC' means the Weight Average Coupon excl. premiums for JHF group credit life insurance

The expected maturities are almost the same as those of the previous issue. This is because the interest rate factor on the refinancing incentive assumed for each future period (= WAC' – refinancing loan rate for each term) is offset on a net basis as the factor is small in the front-end of the curve and it is large in the longer end of the curve due to the twisting of the forward rate curve at around the 10-year ahead forward rate. Here, WAC was 1.41% and WAC' was 1.19%, an expansion of 0.02ppt from the previous issue (see pp. 6-7).

Chart: Launch Spread Estimates for No. 190 MBS (based on 9 February closing prices)

Valuations of JHF_MBS_#190 Pricing(Simulation)										9-Feb-23 (Tokyo Close)
Base Yield: JGB(369G) YTM 0.490 %										
Launch Spread	Coupon	Valuations of Cash Flows							Indications of Previous RMBS Issue (#189)	
		Daiwa Model				PSJ Model				
		Dynamic	Static			PSJ forecast Statistical Data(Ave)				
OAS	YCS	ASW	ModDur	YCS	ASW	ModDur				
51 bp	1.00 %	0.8	8.3	0.3	9.708	20.5	6.1	8.855	(Issuance Terms)	
52 bp	1.01 %	1.9	9.3	1.3	9.700	21.5	7.1	8.848	Launch Spread=59bp	
53 bp	1.02 %	3.0	10.4	2.3	9.691	22.5	8.1	8.842	Coupon=1.01%	
54 bp	1.03 %	4.0	11.4	3.3	9.683	23.6	9.1	8.835	(Valuations at the time of Launch)	
55 bp	1.04 %	5.1	12.5	4.2	9.674	24.6	10.1	8.828	[CF based on Daiwa Model]:	
56 bp	1.05 %	6.1	13.5	5.2	9.666	25.7	11.1	8.822	OAS=9.4bp, YCS=16.7bp, ASW=7bp	
57 bp	1.06 %	7.2	14.6	6.2	9.657	26.7	12.1	8.815	[CF based on PSJ Model]:	
58 bp	1.07 %	8.3	15.6	7.2	9.649	27.7	13.0	8.809	YCS=28.7bp, ASW=12.9bp	
59 bp	1.08 %	9.3	16.7	8.2	9.641	28.8	14.0	8.802	(Valuations in the secondary market)	
60 bp	1.09 %	10.4	17.8	9.2	9.632	29.8	15.0	8.795	[CF based on Daiwa Model/Daiwa Price]	
61 bp	1.10 %	11.4	18.8	10.1	9.624	30.9	16.0	8.789	OAS=6bp, YCS=12.1bp, ASW=4bp	
62 bp	1.11 %	12.5	19.9	11.1	9.615	31.9	17.0	8.782	[CF based on PSJ Model/JSDA price]:	
63 bp	1.12 %	13.6	20.9	12.1	9.607	33.0	18.0	8.776	BEY=1.04%, YCS=24.7bp, ASW=10.2bp	
64 bp	1.13 %	14.6	22.0	13.1	9.598	34.0	19.0	8.769		
65 bp	1.14 %	15.7	23.0	14.1	9.590	35.0	19.9	8.762		
<div><div>&lt;Daiwa Model&gt;</div><div>PSJ 6.20 %</div><div>WAL 10.55 years</div></div> <div><div>&lt;PSJ Model/based on PSJ Forecast Statistical Data&gt;</div><div>Ave: 7.71 % (Median: 8.02 ) %</div><div>9.52 years ( 9.38 ) years</div></div>										

Source: Compiled by Daiwa Securities.

Note: 1) Figures in colored cells show similar indications to those in the previous issue, as indicated in the right section (Indications of Previous MBS Issue) with the same colors. Spreads in the previous issue at launch are based on those at the time of pricing. The spreads in the previous issue in the secondary market used in the Daiwa model are based on Daiwa prices, and the spreads in the previous issue in the secondary market used in the PSJ model are based on the JSDA's Trading Reference Statistical Data.

2) Figures for both Trading Reference Statistical Data and PSJ Forecast Statistical Data are average figures.

3) Estimated cash flow is based on the assumption that clean-up call options are exercised in initial April or October after the outstanding amount becomes 10% or less of the original.

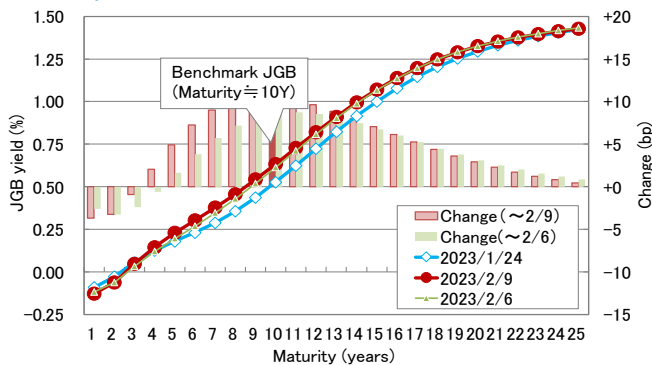


## Launch spread indications

The previous issue (the No. 189) launched as the yield to maturity of the on-the-run 10-year JGB declined from 0.50%, the high end of the BOJ's range for its yield curve control policy, by nearly 10bp. The 10-year JGB yield has recently risen to nearly 0.50%.

Based on a launch spread of 59bp, the same as the previous issue's, the No. 190's coupon would be 1.08%, 7bp higher than the previous issue's. Based on estimated cash flows using the average PSJ forecast, the YCS would be 28.8bp, close to 28.7bp at the time of the previous issue's launch. Also, the OAS would be 9.3bp, close to 9.4bp at the time of the previous issue's launch (based on the 9 February close).

**Chart: JGB Yield Curve Changes (from the day before launch day of No.189)**



Source: Compiled by Daiwa Securities.

## Secondary market prices

The connections between the previous issue and the upcoming one are as follows (secondary market prices and base rates are as of the 9 February close). For the price of the on-the-run issue in the secondary market, we use the retail mid-rate as well as the risk premium in the JSDA's Reference Statistical Prices [Yields] for OTC Bond Transactions.

## Connection with risk premium of previous issue

### 【Pricing using our model's cash flow estimates】

- The No. 189's launch OAS was 9.4bp and the YCS 16.7bp. Based on the similar OAS and YCS, the No. 190's launch spread would be 59bp and the coupon 1.08%.
- In the secondary market, the previous issue's OAS is 6.0bp and YCS 12.1bp based on our mid-rate (Y99.74). The upcoming issue's launch spread that would yield a similar OAS and YCS would be 55-56bp and the coupon 1.04-1.05%.
- In the secondary market, the previous issue's OAS would be 5.9bp and YCS 12.1bp based on the reference statistical price (Y99.75). The upcoming issue's launch spread that would yield a similar OAS and YCS would be 55bp and the coupon 1.04%.

### 【Pricing using average PSJ forecast-based cash flow estimates】

- The No. 189's launch YCS was 28.7bp. Based on the similar YCS, the No. 190's launch spread would be 59bp and the coupon 1.08%.
- In the secondary market, the No. 189's YCS is 24.7bp. In line with this, the No. 190's launch spread would be about 55bp and the coupon 1.04%

## (Demand forecast for No. 190 issue and issuance level)

## Maximum issue size Y95.0bn

The candidate trust assets include Flat 35 mortgages originated in January and also ones originated in December that were not used for the previous issue and were carried over. The JHF smooths out the issue sizes of its monthly MBS based on the supply-demand balance. As was the case with the previous issue, all of the Flat 35 mortgages purchased in January might not be used for the upcoming one and some might be carried over.

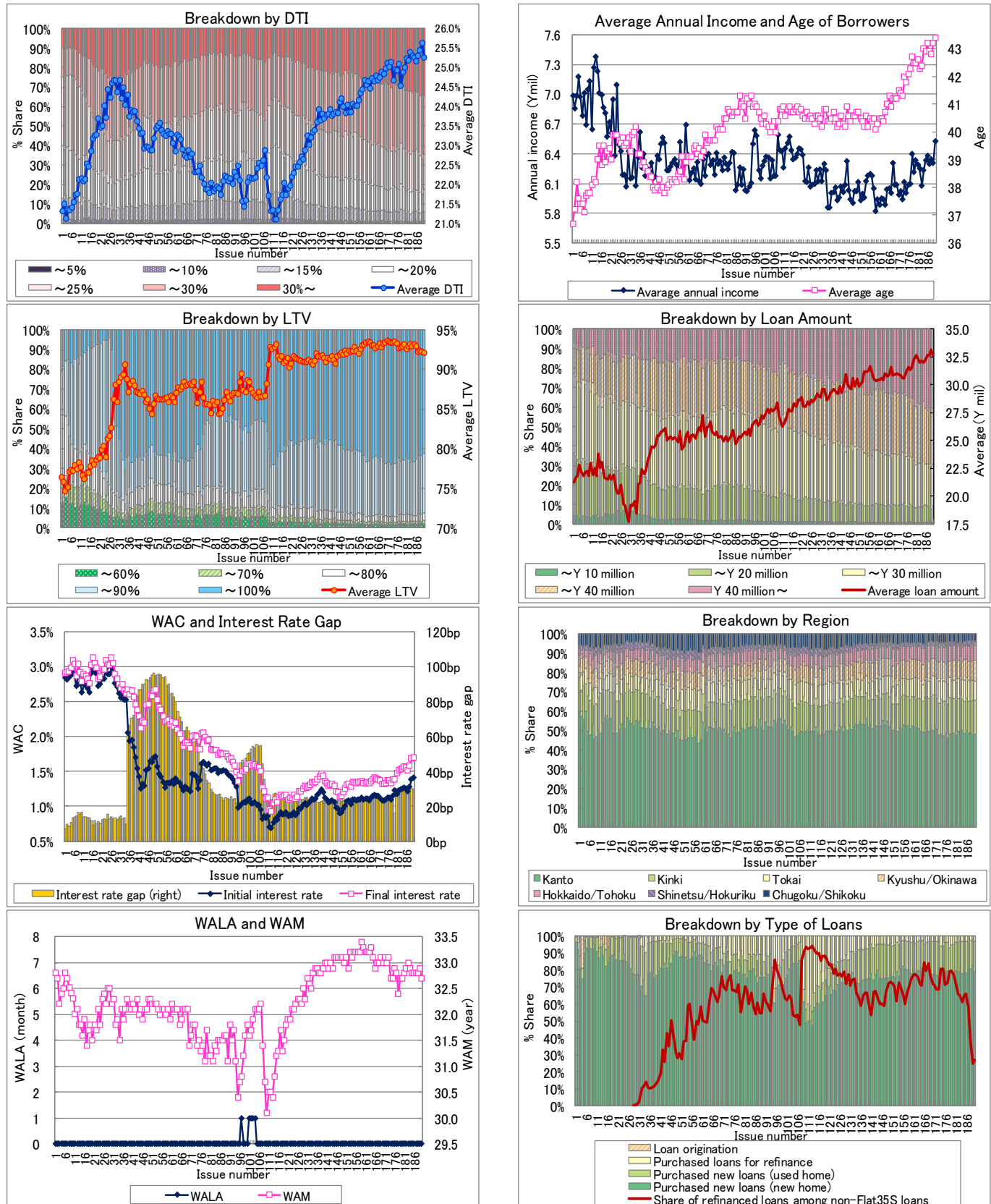
## Size might be less than Y95.0bn, depending on investor demand

The Y119.2bn of candidate Flat 35 mortgages is the maximum size of the upcoming issue. It is not certain that all will be used for collateral (trust assets). In light of overcollateralization, the size of the RMBS could be as large as Y95.0bn but is likely to be lower, based on demand. The issue size is to be announced in the afternoon of the 10th.

## Coupon of 1.0%

The personal opinion of your author is that the launch spread for this issue will confirm sufficient demand and be either 52-59bp. In this case, the coupon would be 1.01-1.08% (based on 9 February closing prices).

## Characteristics of Underlying Loan Pools for All JHF Monthly MBSs



Source: JHF; compiled by Daiwa Securities. Note: Candidate pool used for No. 190 issue.

## Characteristics of Underlying Loans: No. 190 Monthly MBS and Last Six Issues (No. 184-189)

	JHF #184	JHF #185	JHF #186	JHF #187	JHF #188	JHF #189	JHF #190	Ave. of previous 6 issues	Change from #189
Loan Pool Selected in	Jul-2022	Aug-2022	Sep-2022	Oct-2022	Nov-2022	Dec-2022	Jan-2023		
Loan Application Started in	Feb-2020	Dec-2019	Aug-2019	Jul-2019	Aug-2020	Jul-2020	Oct-2019		
Repayment Started in	Jul-2022	Jun-2022, Aug-2022	Sep-2022	Oct-2022	Oct-2022, Nov-2022	Dec-2022	Dec-2022, Jan-2023		
Initial Outstanding Entrusted Assets (Y mil)	127,322	116,800	126,645	107,988	117,759	88,001	119,260	114,086	+31,259
Issue Size (Y mil)	101,200	92,900	100,000	85,600	92,900	70,400	TBD	90,500	-
Excess Collateral (Y mil)	26,122	23,900	26,645	22,388	24,859	17,601	TBD	23,586	-
Overcollateralization	20.5%	20.4%	21.0%	20.7%	21.1%	20.0%	TBD	20.6%	-
Number of Loans	3,961	3,650	3,943	3,311	3,610	2,655	3,649	3,522	+994
Average Outstanding Loan (Y mil)	32.144	32.000	32.119	32.615	32.620	33.145	32.683	32.441	-0.463
Average LTV	92.98%	93.16%	92.94%	92.27%	92.38%	92.25%	92.09%	92.66%	-0.16%
Average DTI	25.31%	25.27%	25.16%	25.31%	25.45%	25.64%	25.26%	25.36%	-0.38%
Average LTV for Refinance	74.22%	70.72%	75.83%	71.50%	73.58%	66.04%	65.49%	71.98%	-0.55%
Average DTI for Refinance	19.33%	18.85%	18.47%	17.91%	19.44%	20.26%	18.08%	19.04%	-2.18%
Average Annual Income of Obligors (Y mil)	6.232	6.335	6.380	6.294	6.340	6.302	6.524	6.314	+0.221
Average Age of Obligors	43.0	42.9	43.2	42.9	42.8	43.2	43.4	43.0	+0.2
WAC (Initial Rate)	1.26%	1.27%	1.26%	1.21%	1.28%	1.39%	1.41%	1.28%	+0.02%
WAC (Final Rate)	1.55%	1.57%	1.56%	1.52%	1.58%	1.69%	1.71%	1.58%	+0.02%
WALA (Weighted Average Loan Age)	0	0	0	0	0	0	0	0	+0
WALA for Refinance	132	133	132	135	137	133	136	134	+3
WAM	395	394	394	394	394	395	392	394	-2
Maturity Structure of Loans at Origination (% share)	Up to 10Y	0.1%	0.1%	0.1%	0.1%	0.0%	0.1%	0.1%	+0.1%
	10-20Y	4.9%	5.4%	5.1%	5.3%	6.3%	5.8%	5.5%	+0.4%
	20-25Y	4.7%	4.3%	4.4%	4.5%	3.5%	3.7%	4.2%	-0.1%
	25-30Y	6.8%	7.3%	7.4%	7.6%	7.3%	6.5%	7.1%	+1.8%
	Over 30Y	83.5%	83.0%	83.0%	82.5%	83.0%	83.9%	83.1%	-2.2%
% share of loans with bonus payments	(in number)	7.0%	7.4%	7.1%	7.5%	6.9%	7.1%	7.2%	-0.4%
	(in value)	7.7%	7.9%	8.0%	8.5%	7.8%	7.3%	7.9%	-0.1%
Type of Loan	new	96.9%	96.7%	96.7%	96.5%	97.6%	97.9%	97.1%	-0.9%
	refinanced	3.1%	3.3%	3.3%	3.5%	2.4%	2.1%	2.9%	+0.9%
Loan Amount at Origination (% share)	Up to Y10 mil	0.8%	0.8%	1.0%	0.7%	0.8%	0.8%	0.8%	+0.0%
	Y10-20 mil	7.8%	8.2%	8.6%	8.3%	7.7%	7.0%	7.9%	+1.6%
	Y20-30 mil	22.7%	23.2%	21.3%	21.9%	22.2%	21.4%	22.1%	-0.7%
	Y30-40 mil	30.6%	30.4%	28.5%	27.7%	29.0%	30.0%	29.4%	-0.8%
	Y40-50 mil	20.3%	20.0%	20.8%	20.9%	19.4%	20.7%	20.3%	-1.8%
	Over Y50 mil	17.8%	17.5%	19.7%	20.6%	20.9%	20.1%	19.4%	+1.7%
Loan Amount by Region (% share)	Hokkaido/Tohoku	7.0%	6.7%	7.2%	7.7%	7.7%	7.9%	7.4%	-0.1%
	Kanto	49.9%	48.7%	49.9%	48.5%	48.5%	47.6%	48.9%	+0.7%
	Shinetsu/Hokuriku	2.6%	2.3%	2.5%	2.5%	2.5%	2.3%	2.4%	-0.1%
	Tokai	10.2%	10.7%	10.9%	10.8%	10.8%	10.7%	10.7%	-0.7%
	Kinki	16.3%	16.6%	16.8%	16.8%	16.8%	17.9%	16.9%	-0.5%
	Chugoku	3.2%	2.7%	2.5%	2.4%	2.4%	2.5%	2.6%	-0.1%
	Shikoku	1.2%	1.5%	1.0%	1.4%	1.4%	0.9%	1.2%	+0.3%
	Kyushu/Okinawa	9.6%	10.7%	9.3%	9.8%	9.8%	10.3%	9.9%	+0.6%

Source: JHF; compiled by Daiwa Securities.

Note: Candidate pool used for No. 190 issue.

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- 4: Underperform TOPIX/benchmark index by 5-15% over the next 12 months.
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(This Notification is only applicable to where report is distributed by Daiwa Securities Co. Ltd.)

If you decide to enter into a business arrangement with our company based on the information described in this report, we ask you to pay close attention to the following items.

- In addition to the purchase price of a financial instrument, our company will collect a trading commission\* for each transaction as agreed beforehand with you. Since commissions may be included in the purchase price or may not be charged for certain transactions, we recommend that you confirm the commission for each transaction. In some cases, our company also may charge a maximum of ¥2 million per year as a standing proxy fee for our deposit of your securities, if you are a non-resident.
- For derivative and margin transactions etc., our company may require collateral or margin requirements in accordance with an agreement made beforehand with you. Ordinarily in such cases, the amount of the transaction will be in excess of the required collateral or margin requirements\*\*.
- There is a risk that you will incur losses on your transactions due to changes in the market price of financial instruments based on fluctuations in interest rates, exchange rates, stock prices, real estate prices, commodity prices, and others. In addition, depending on the content of the transaction, the loss could exceed the amount of the collateral or margin requirements.
- There may be a difference between bid price etc. and ask price etc. of OTC derivatives handled by our company.
- Before engaging in any trading, please thoroughly confirm accounting and tax treatments regarding your trading in financial instruments with such experts as certified public accountants.

\* The amount of the trading commission cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

\*\* The ratio of margin requirements etc. to the amount of the transaction cannot be stated here in advance because it will be determined between our company and you based on current market conditions and the content of each transaction etc.

When making an actual transaction, please be sure to carefully read the materials presented to you prior to the execution of agreement, and to take responsibility for your own decisions regarding the signing of the agreement with our company.

Corporate Name: Daiwa Securities Co. Ltd.

Registered: Financial Instruments Business Operator, Chief of Kanto Local Finance Bureau (Kin-sho) No.108

Memberships: Japan Securities Dealers Association, The Financial Futures Association of Japan, Japan Investment Advisers Association, Type II Financial Instruments Firms Association, Japan Security Token Offering Association