



# NEWS RELEASE

No.2003-C-035  
Jan 23, 2003

## GHLC SB No. 10 : R&I Assigns AAA (Prelim)

Rating and Investment Information, Inc. (R&I), has assigned the following preliminary rating:  
It should be noted that this preliminary rating was generated on the basis of information current as of January 23, 2003. At the time of bond issuance, R&I will conduct a final review of various points, including the content of agreements entered into, and issue its formal rating.

**ISSUER:** The Government Housing Loan Corp.  
**ISSUE:** The Government Housing Loan Corp. Pass-through Notes  
No. 10 (GHLC Bonds)  
**ISSUE LIMIT:** 150 billion yen  
**ISSUE DATE:** Feb 21, 2003  
**REDEMPTION DATE:** Feb 10, 2038  
**COUPON RATE:** Undetermined

### R&I PRELIMINARY RATING: AAA

#### **BUSINESS & TRUST**

**MANAGER:** Mizuho Corporate Bank, Ltd.  
**TRUST COMPANY:** The Mitsubishi Trust and Banking Corp.  
**PRINCIPAL & INTEREST**  
**PAYMENT DATE:** The 10th of each month

**NOTE:** The rating is a preliminary rating of the probability of the total redemption of the principal by the final redemption date and of the timely payment of interest until redemption of either the GHLC Bonds or the Trust Certificates that back them in the event the GHLC Bonds are nullified.

#### **OUTLINE OF THE ISSUE:**

- 1) The Government Housing Loan Corp. (GHLC) issues 150 billion yen in bonds (the GHLC Bonds) secured by mortgage loan claims in trust (the entrusted claims). When entrusting the mortgage loan claims, the transfer is perfected as against any third party pursuant to the Law Prescribing Exceptions etc. to the Civil Code Requirements for Setting Up Against a Third Party to an Assignment of Claims.
- 2) Collection of the claims is consigned to GHLC. GHLC then re-consigns the collection business to financial institutions which are already consigned this business (the consigned institutions).
- 3) GHLC has the right to change the entrusted claims, replacing any entrusted claims on which payments are overdue by four months or more, any entrusted claims where recovery of the principal and interest has become unlikely because of a disaster or other reason, and any entrusted claims where the loan contracts have been altered with other suitable claims held by GHLC.
- 4) The GHLC Bonds are redeemed using a monthly pass-through. The amount to be redeemed each month is based on the amount of principal recovered on the entrusted claims two months previously. In the event that GHLC is wound up and that there is no successor to the GHLC Bonds or GHLC's other rights and obligations, or that they are inherited by a joint-stock company, trust certificates will be exercised and the GHLC Bonds will be nullified. Principal and dividend payments on the trust certificates will continue to be made through the recovery of the entrusted claims.

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## SUMMARY OF EVALUATION

### 1) There is adequate overcollateralization

Overcollateralization is set at 12.36% of the issue amount of 150 billion yen in GHLC Bonds. The overcollateralization is set bearing in mind the characteristics of GHLC's mortgage loan portfolio, and even if the trust certificates are exercised it will be possible to redeem them out of the funds recovered from the entrusted claims.

### 2) The GHLC Bonds have the most preferential position among GHLC's creditors

GHLC borrows funds from the government, commercial banks and other financial institutions and can issue various securities for which mortgage loans are not used as collateral. Compared to the government, commercial banks and other financial institutions, which are unsecured creditors, and the holders of various securities that hold rights against GHLC's assets in succession to general special preferential rights, the holders of the GHLC bonds against which there are individual collateral rights are believed to be in the most preferential position regarding their claim to the entrusted claims.

Since the issuer of the GHLC Bonds is GHLC, any deterioration in GHLC's creditworthiness prior to the time when the trust certificates are exercised could result in a downgrading of the rating for the GHLC Bonds. Nevertheless, recovery of the entrusted claims set as collateral can be expected, and the Corporate Reconstruction Law, which would greatly limit GHLC's ability to dispose of assets, does not apply, so the rating for the GHLC Bonds may be higher than the creditworthiness of GHLC itself.

### 3) Change in Status of GHLC and Exercise of the Trust Certificates

On December 2001, a plan for restructuring and streamlining special public corporations was approved by the cabinet, and it emerged that the existing assets of GHLC will be transferred to a new independent administrative body. As a result, in the event that the existing bonds issued by GHLC are transferred to the new body, the trust certificates will not be exercised. In the event that the creditworthiness of the relevant entity were to deteriorate and there was an increased possibility of default of the GHLC Bonds, it would still be possible to expect recovery of the collateral assets as corporate reconstruction or similar legal means which would greatly limit the disposal of collateral would not be used against the successor body. As a result, it is still possible for the ratings for the GHLC Bonds succeeded to by a different entity to be higher than the creditworthiness of the relevant entity.

In practice, it will not be known whether the GHLC Bonds will in fact be transferred to the new entity until the Diet makes a decision, during the year to March 2005, over proposals to liquidate GHLC and establish a new entity.

### 4) Changes to the Mortgage Loan Portfolio

The chief feature of the housing loans is that compared with the No. 9 loans, their average loan-to-value (LTV) and debt-to-income (DTI) ratios are at almost the same level, so there is no substantial change. R&I has calculated the overcollateralization of the No. 10 loans based on the AAA stress test that it conventionally uses.