

Installment Receivables and Card Shopping Receivables

1. Outline of Underlying Assets

Installment sales, purchasing contract for goods by installment payments, and installment payments for general products by third party credit under Installment Sales Act before revision of this Act in 2008 were reclassified into installment sales (comprehensive method and individual method), credit purchase brokerage contract (comprehensive method and individual method), and sales on the affiliated loan (comprehensive method only, sales on the affiliated loan through individual method are included in the individual credit purchase brokerage contract). While the installment sales under the Act before the revision were provisions of products or services in more than three installments over a more than 2-month period, definition of the installment sales was extended to a payment after a 2 month period, and the installment sales now include almost all sales but sales in which one pays the total amount one month after the purchase after the revision. Individual method is a method in which a credit card company makes a credit decision every time a consumer purchases products or receives services without using a credit card and then the consumer and the credit card company enter into a credit agreement individually. Comprehensive method is the one in which a consumer and a credit card company enter into a credit agreement comprehensively at first within the scope of the limit and the consumer uses his or her credit card when he or she purchases products. Repayment methods are revolving payments that are predetermined payments every month without any direct relation to the charges for the products or services in addition to lump-sum payments and installment payments.

As for the underlying assets in securitization, the following classifications are considered common: Claims generated by installment sales through individual method and by credit purchase brokerage contract are classified as installment receivables (individual installment receivables or shopping credit receivables), and claims generated by installment sales through comprehensive method, credit purchase brokerage contract and sales on the affiliated loan are classified as card shopping receivables. Among these receivables, receivables with revolving payments or installment payments are the receivables to be securitized primarily. For the individual method, in case where the products are automobiles, such receivables are separately treated from installment receivables as auto loan receivables as before.

2. General Scheme for Installment Receivables Securitization (in case of Trust Method)

- (i) An originator assigns the installment receivables held against the multiple underlying debtors, which are chosen based on trust agreements, to a trust of a trust bank (trustee), which then issues a senior beneficial interest and a subordinated beneficial interest.
- (ii) For assignment of the installment receivables, the originator perfects the assignment of the installment receivables against third parties by way of registration provided by Article 4 (1) of Act on

Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movables and Claims. Perfection against debtors is reserved until certain events occur.

- (iii) The originator undertakes collection operations for the installment receivables as an initial servicer in accordance with the agreement on assignment of administrative work and delivers the collected money to the trustee. The trustee then redeems the principal amount of the senior beneficial interest and pay dividends.
- (iv) In preparation for a case where the originator cannot conduct servicing operation normally, backup servicer stands by.

3. Expected Risks and Evaluation on Them

(1) Risk of Deterioration in Creditworthiness of Underlying Debtors

In case where occurrences of defaults on debts by underlying debtors of the installment receivables exceed a certain percentage, securitization receivables may suffer a loss.

For this risk, JCR provides credit enhancement through senior-subordinated structure, etc. commensurate with the rating (please refer to 4. Calculation of Required Subordination Amount below).

(2) Cancellation Risk (Member Store Risk)

Under the current Installment Sales Act and Act on Specified Commercial Transactions, rescission of contracts is admitted in various cases as described below.

First of all, for all products and services in principle, 8- day cooling-off period is admitted for door-to-door sales, telemarketing sales and specified continuous service offers of individual credit purchase brokerage contract and 20-day cooling-off period is admitted for multilevel marketing transactions and business opportunity related sales transactions. In case where a consumer misunderstands and applies for a contract or indicates his or her intention to accept the offer as a result of an illegal act such as a misstatement or a willful concealment of important matters, the consumer can cancel the contract irrespective of the cooling-off period. As for the specified continuous service offers and multilevel marketing transactions, midterm cancellation after the cooling-off period is admitted, and upper limit on penalty for contract breach in such case is provided.

Consumers who use credit purchase brokerage contract are permitted to stop payments when there is a flaw in a product, a product is not delivered, there is a fraud, or there is coercion or compulsion in the buy and sell agreement, based on these facts with certain requirements. As for the individual credit purchase brokerage contract, consumers can receive refund from credit sales companies and credit companies in cases where cooling off rights have been exercised or member stores made wrongful solicitation.

To reduce dilution risk of receivables owing to these cancellations, it is necessary that member stores be diversified by way of measures such as reducing the ratio of the same member store to the pool

of the receivables to a certain percentage. Incorporation of seasoning into the eligibility requirements is also effective for reduction of this risk. With these requirements, JCR examines to what extent the cancellation (member store) risk can have an impact on credit risk of the pool of the securitization receivables, content of products or services of the pool, screening of member stores by the originator, creditworthiness of influential member stores, etc. and calculates cancellation loss and sets up subordination separately from subordination for bad debts, if necessary.

(3) Risk of Originator's Bankruptcy, etc.

(i) True Sale

In the originator's bankruptcy, civil rehabilitation, or corporate reorganization proceedings, there is a risk that the relevant court or receiver may judge the claims assigned by securitization as the claims belonging to the bankruptcy estate, rehabilitation debtor's property, or reorganization company's assets and as the claims or security rights subject to the bankruptcy, civil rehabilitation, or corporate reorganization proceedings (the so called "true sale" issue).

Major focal points in terms of credit ratings for the true sale are the following:

- It has already been confirmed whether or not the originator has an intention of assigning its receivables. The originator's intention of assigning its receivables has already been approved according to the internal procedures.
- The originator has no right of control, except that it has rights and obligations as a subordinated beneficiary, seller beneficiary, and servicer.
- Except in the case of occurrence of certain events (cleanup call, violation of representations and warranties, violation of eligibility criteria, other contractual violations, etc.), the originator has neither obligation nor right to repurchase the transferred receivables.
- With regard to the assignment of the receivables from the originator to the trust of the trustee, requirements for perfection against third parties have been fulfilled. In case of occurrence of any cause for replacing the servicer, requirements for perfection against debtors are to be fulfilled. Other requirements for perfection have been met.
- The originator renders no indemnification for solvency of debtors.
- In case where there is a seller beneficial interest, such seller beneficial interest can be considered to rank pari passu with senior beneficial interest and should not be constituted as a credit enhancement measure.
- The assignment price of receivables between the originator and the trustee has been determined based on rational and fair prices as standards.

(ii) Risk of No Perfection Against Debtors

In many cases of securitizing installment receivables, the originator fulfills requirements for perfection of assignment by third parties by registration of assignment of claims as stipulated in Act

on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movables and Claims, while requirements for perfection of assignment against debtors are reserved at the beginning. If the originator falls into bankruptcy by any chance, collected proceeds to be received by the trustee, etc. from the debtors may possibly decrease because the originator has not acquired requirements for perfection against debtors.

In response to this risk, it is determined that the originator will promptly acquire requirements for perfection against debtors using the method as stipulated in Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movables and Claims or in the civil code in case of occurrence of certain events such as the originator's deterioration in the creditworthiness.

(4) Risk Pertaining Servicer

(i) Risk of Originator's Bankruptcy, etc. as Servicer

When its claims are securitized, the originator often enters into an agreement on assignment of administrative work with the trustee to whom the claims have been assigned, on the basis of which it pursues collection operations by continuing the collection method as has been practiced by it. In this case, relations between the originator and underlying debtors will not change after the securitization outwardly and it can avoid confusion arising from securitization of the receivables. However, if any bankruptcy, civil rehabilitation, or corporate reorganization proceedings have been commenced by or against the originator, the collection operations may possibly be confused and suspended on a temporary basis.

In response to this risk, liquidity facilities should be administered and a scheme, in which the agreement on assignment of administrative work with the originator can be cancelled and the backup servicer can take over the collection operations if the trustee, etc. admits, is required.

(ii) Commingling Risk

In securitization of installment receivables, the originator continues to face the underlying debtors after assignment of receivables usually as a mandatory for servicing (administration and collection) operation. The originator's position will not change outwardly. For this reason, when the originator becomes bankrupt, there is a risk that the collected money from the receivables will mix or commingle with the originator's inherent cash.

In response to this risk, subordination for commingling risk of the collected money retained in the hands of the originator at hand is required to be set up separately from subordination for credit losses of the securitization receivables.

4. Calculation of Required Subordination Amount

As installment receivables are in general well diversified into many small claims by their nature, expected amount of loss owing to defaults on the underlying claims is calculated by stress test based on approach of many small lots using the law of large numbers.

(1) Analyses of Population Receivables and Securitization Receivables

(i) Analysis of Historical Data

JCR calculates credit loss rate, cancellation rate and prepayment rate from historical data of the population receivables. As for credit losses in the case of securitization, JCR includes long-term delinquent receivables (over 3 to 4 months past due normally) in addition to legal liquidation claims and bad debts, for which attorneys intervened, into the credit loss rate.

(ii) Analyses of Composition Ratio of Population Receivables

JCR understands characteristics of the population receivables from data by composition ratio of the population receivables (by sex, age, balance, address of debtors, industry of member stores, products, etc.) and refers to the data when determining stress multiplying factor.

(iii) Analysis of Composition Ratio of Securitization Receivables

JCR then checks whether or not the pool of securitization receivables is similar to the pool of population receivables by comparing the composition ratio of the former with that ratio of the latter. If the two are different, JCR adjusts the difference by the stress multiplying factor.

(2) Determination of Base Rate

JCR determines a base case for verification and analysis of movements of credit loss rate and other variables from historical data of the population receivables. With the average value of historical data being a basis, JCR determines a final base rate for each variable, taking into consideration past trend, outlier, and also qualitative factors such as items confirmed by the due diligence meeting (credit policy, billing system, debt collection procedures, transfer to the managed claims or guidelines for write-offs) or macro data on the market entirely, and then incorporating these considerations into the analysis.

(3) Stress Test

JCR calculates next required subordination amount commensurate with rating after generating stressed credit loss rate and other variables for the expected cash flows during the securitization period. There are multiple cases for the levels after the addition of stress, and they include a level of the base case multiplied by a constant, or the one with the standard deviation of historical data. JCR adopts an appropriate level for each case. JCR takes into consideration qualitative factors such as attributes of the population receivables and securitization receivables and adjusts the stress level, if necessary, while

taking the following stress multiplying factors as basics.

Stress Multiplying Factors:

Rating	Stress Multiplying Factor
AAA	3.5 times
AA	3.0 times
A	2.5 times
BBB	2.0 times

(4) Commingling Risk

JCR deals with the commingling risk in principle by setting the required subordinated beneficial interest amount to the largest amount to be expected to become uncollectible if the originator as servicer becomes bankrupt at any time after start of the securitization. JCR determines the required subordination amount in accordance with collection schedule by confirming scheduled cash flow for the receivables, because installment receivables include claims with unequal monthly payments such as payments combined with bonus payments.

In case where the originator meets certain requirements, JCR allows the originator to reserve to set up a subordinated beneficial interest amount for the commingling risk initially required until infringement of trigger by setting up a trigger for the commingling.

(Please refer to "Commingling Risk Pertaining to the Securitization Products")

(5) Cash Reserve (Liquidity Facility)

It is necessary to reserve funds as cash reserve to be required in a period until the collected money is credited to the SPV or trust again after the servicer transfers its collection operation to the backup servicer when the servicer goes into a situation where it cannot conduct collection business as usual due to default or some other reasons.

JCR has a policy as a general rule in rating that backup servicer should be set up from the very beginning of the securitization. As for an originator with a certain level of a rating, however, JCR admits that a backup servicer is not selected at the beginning.

(Please refer to "Backup Servicer in Securitization")

5. Outline of Receivables with a Revolving Period and Rating Methodology for Them

(1) Outline

In securitization of card shopping receivables, it is often the case that receivables generated by additional use of credit card by debtors are transferred to the trust, and furthermore, the originator assigns the receivables to the trust additionally during the initial revolving period so that a certain amount of principal balance can be maintained and then redemption of senior beneficial interest is started after the end of the revolving period. There are cases where the originator can raise funds with a

longer period than period of underlying claims by setting up a revolving period for the individual installment receivables.

(2) General Securitization Scheme

- (i) The originator assigns the card shopping receivables held against the multiple underlying debtors, which are chosen based on trust agreements, to the trust of a trust bank (trustee), which then issues a senior beneficial interest, a subordinated beneficial interest, and a seller beneficial interest. The senior beneficial interest is assigned while the subordinated beneficial interest and seller beneficial interest are held by the originator. The purpose of the seller beneficial interest is to absorb fluctuations in balance of the receivables assigned to the trust of the trustee and does not work as a credit enhancement measure.
- (ii) For assignment of the card shopping receivables, the originator perfects the assignment of the card shopping receivables against third parties by way of registration provided by Article 4 (1) of Act on Special Provisions, etc. of the Civil Code Concerning the Perfection Requirements for the Assignment of Movable and Claims. Perfection against debtors is reserved until certain events occur.
- (iii) The originator undertakes collection operations for the card shopping receivables as an initial servicer on behalf of the trustee in accordance with the agreement on assignment of administrative work and delivers the collected money to the trustee.
- (iv) Receivables generated by additional use of credit card by debtors are transferred to the trust and are added to the seller beneficial interest. During the revolving period, the trustee pays dividends on the senior beneficial interest from the collected proceeds and if the remaining amount exceeds the required amount for the seller beneficial interest, the excess amount is appropriated for redemption of the principal of seller beneficial interest. If principal balance of the receivables in trust falls below a certain amount, the originator assigns the receivables additionally to the trust of the trustee for the shortage so that the principal balance can be maintained at a certain amount.
- (v) After the termination of the revolving period, collected money from the underlying debtors is appropriated for dividend payments and redemption of principal for the senior beneficial interest and seller beneficial interest.
- (vi) If early redemption event, etc. occur, the revolving period terminates at that time, and redemption of the senior beneficial interest starts.

(3) Expected Risks and Evaluation on Them

(i) Credit Risk and Cancellation Risk

There will be a risk from bad debts of the underlying debtors and there will be also a risk that the receivables cease to exist owing to cancellation of credit agreements. JCR responds to these risks by a credit enhancement measure through senior-subordinated structure.

(ii) Commingling Risk

JCR sets up the assumed amount of commingling loss in accordance with collection schedule for the receivables as a minimum required seller beneficial amount.

(iii) Risk of Deterioration in Assigned Receivables During the Revolving Period

In preparation for a case where the credit loss rate, principal recovery rate, etc. of the pool of the assigned receivables get worse than a certain level during the revolving period, dynamic reserve is set up in many cases. If these rates deteriorate further, such case is handled by terminating the revolving period and starting redemption of the senior beneficial interest.

Other risks are the same as in the case of normal installment receivables.

(4) Calculation of Required Subordination Amount

(i) Analyses of Population Receivables and Securitization Receivables

As card shopping receivables are also in general well diversified into many small claims by their nature, expected amount of loss owing to defaults on the underlying claims is calculated by stress test based on approach of many small lots (large numbers approach) using the law of large numbers.

(a) Calculation of Credit Loss Rate and Other Variables

JCR calculates credit loss rate, cancellation rate, principal repayment rate, rate of additional use of credit card and yield rate from historical data of the population receivables. If the credit loss rate and delinquency rate of the submitted historical data include cancellation, JCR calculates the credit loss rate by adding up required subordination amount for credit risk.

(b) Attribute Analyses of Population Receivables and Securitization Receivables

JCR understands characteristics of the pool of population receivables and pool of securitization receivables from data by composition ratio of these pools and refers to the data when determining stress multiplying factor by comparing the two.

(ii) Determination of Base Rate

JCR determines a base case for verification and analysis of movements of credit loss rate and other variables from historical data of the population receivables. With the average value of historical data being a basis, JCR determines a final base rate for each variable, taking into consideration past trend, outlier, and also qualitative factors such as items confirmed by the meeting with the originator (credit policy, billing system, debt collection procedures, transfer to the managed claims or guidelines for write-offs) or macro data on the market entirely, and then incorporating these considerations into the analysis.

(iii) Stress Test

JCR calculates next required subordination amount after generating stressed credit loss rate and other variables for the expected cash flows during the securitization period. There are multiple cases for the levels after the addition of stress, and they include a level of the base case multiplied by a constant, or the one with the standard deviation of historical data multiplied by a constant being added to the base case. JCR adopts an appropriate level for each case. JCR determines a stress multiplying factor for the credit loss rate in consideration of qualitative factors such as attributes of the population receivables and securitization receivables, while taking the same basics for the stress multiplying factor as applied to the basics for normal installment receivables as the basics.

(iv) Commingling Risk

As described above, the assumed amount of commingling loss is maintained in the amount of seller beneficial interest as a required amount in general.

(v) Cash Reserve and Backup Servicer

Cash reserve and backup servicer are the same as in the case of normal installment receivables.

6. Outline of Monthly Clear Receivables and Rating Methodology for Them

(1) Outline

Monthly clear receivables are generated as a right to claim for charges for products or services provided to a credit cardholder who purchased such products or services by choosing a payment method in which the cardholder pays the total amount one month after the purchase. In accordance with the definition of the installment sales under Installment Sales Act, installment sales are payments after a 2 month period, and monthly clear receivables with payment method of total amount one month after the purchase are not applied to the installment sales.

While it seems that there are many schemes in which securitization with a period of less than one month is repeated every month, there are also securitization schemes by which long-term fund procurement can be made by way of appropriating the collected money from the underlying claims to purchases of additional receivables repeatedly (revolving).

(2) Expected Risks and Evaluation on Them

(i) Credit Risk and Cancellation Risk

There is a possibility that recovery of the securitization receivables cannot be made as scheduled owing to deterioration in creditworthiness of underlying debtors or insufficient funds at bank debit accounts of them. In case where underlying debtors cancel the credit agreement, a risk that the receivables may cease to exist (dilution risk) can arise. JCR responds to this risk by a credit

enhancement measure through senior-subordinated structure.

(ii) Commingling Risk

In case where the originator who receives delegation of servicing operation from the trustee, etc. goes bankrupt, loss on the collected money (commingling loss) will become the full collected amount over the recovery period for the receivables at a maximum, because monthly clear receivables are receivables with single payment and usually the payment dates concentrate on specific dates. Namely, commingling loss is equal to the total principal amount of the securitization receivables excluding cases of revolving-type securitization scheme.

(3) Calculation of Required Subordination Amount

(i) Analyses of Population Receivables and Securitization Receivables

As monthly clear receivables are in general well diversified into many small claims by their nature, expected amount of loss owing to defaults on the underlying claims is calculated by stress test based on approach of many small lots (large numbers approach) using the law of large numbers.

(a) Calculation of Credit Loss Rate and Other Variables

JCR calculates credit loss rate and cancellation rate from historical data of the population receivables. JCR calculates the credit loss rate in accordance with definition, etc. of default for each securitization project. Excluding cases where a tail period is set up during a period from payment date of monthly clear receivables until redemption date of the securitization products, JCR thinks that not only receivables, which were written off as bad debts in the historical data, but over one month past due receivables should be included in the calculation of credit loss rate.

If the credit loss rate and delinquency rate of the submitted historical data include cancellation, JCR calculates the credit loss rate by adding up required subordination amount for credit risk.

(b) Attribute Analyses of Population Receivables and Securitization Receivables

JCR understands characteristics of the pool of population receivables and pool of securitization receivables from data by composition ratio of these pools and refers to the data when determining stress multiplying factor by comparing the two.

(ii) Determination of Base Rate

JCR determines a base case for verification and analysis of movements of credit loss rate and other variables from historical data of the population receivables. With the average value of historical data being a basis, JCR determines a final base rate for each variable, taking into consideration past trend, outlier, and also qualitative factors such as items confirmed by the meeting with the originator (credit policy, billing system, debt collection procedures, transfer to the managed claims or

guidelines for write-offs) or macro data on the market entirely, and then incorporating these considerations into the analysis.

(iii) Stress Test

JCR calculates next required subordination amount after generating stressed credit loss rate and other variables for the expected cash flows during the securitization period. There are multiple cases for the levels after the addition of stress, and they include a level of the base case multiplied by a constant, or the one with the standard deviation of historical data multiplied by a constant being added to the base case. JCR adopts an appropriate level for each case. JCR determines a stress multiplying factor in consideration of qualitative factors such as attributes of the population receivables and securitization receivables, while taking the same basics for the stress multiplying factor as applied to the basics for normal installment receivables as the basics.

In case of monthly clear receivables, in particular, a sharp reduction in deposit amount for a month can lead to failure of timely payment, because certainty of principal repayment of the securitization products at the redemption date is a thing to be rated. Under this securitization scheme, stress multiplying factor should be set at a stronger level than that for a long-term securitization product, in which a sharp reduction in deposit amount for a month does not lead to an impairment of principal if the deposit amount recovers next month following the month, in which deposit amount is reduced sharply. This shall not, however, apply to cases where a tail period is set up or cases of revolving-type securitization scheme.

(iv) Commingling Risk

As described above, in case of monthly clear receivables, commingling loss will become the full collected amount over the recovery period for the receivables at a maximum. Accordingly, the largest amount to be uncollectible needs to be set up as a subordinated beneficial interest for commingling risk or as a seller beneficial interest. Otherwise, rating on a securitization product is subject to creditworthiness of the originator as a servicer.

(v) Backup Servicer

Under a revolving-type securitization scheme, in case where the initial servicer goes into a situation where it cannot conduct collection business as usual due to default or some other reasons, a scheme, in which the trustee, etc. can cancel agreement on assignment of administrative work with the initial servicer and the backup servicer can take over the collection operations, needs to be prepared. Meanwhile, under schemes other than revolving-type securitization scheme, it is less necessary to set up a backup servicer in securitization of monthly clear receivables.

(vi) Cash Reserve

It is necessary to reserve funds as cash reserve to be required in a period until the collected money is credited to the trustee, etc. again after the initial servicer transfers its collection operation to the backup servicer when the initial servicer goes into a situation where it cannot conduct collection business as usual due to default or some other reasons. Meanwhile, under schemes other than revolving-type securitization scheme, it is less necessary to set up cash reserve.

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