

What are subprime mortgages?

- “Mortgage loans to less creditworthy borrowers”
- Outstanding amount: \$1.3~1.5 trillion
- About 13~15% of the U.S. mortgage market
- Delinquency rate has been rising recently (2Q 2007: 14.8%)

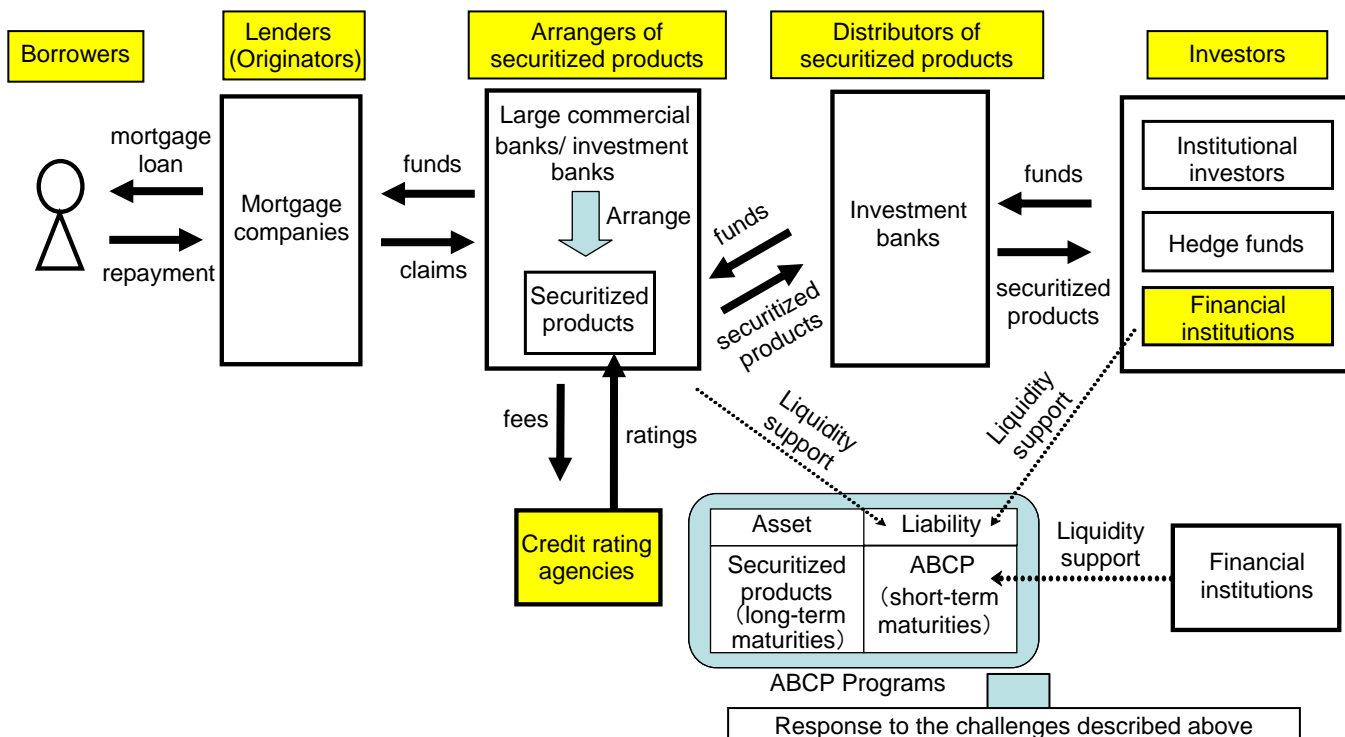
Overview of Subprime Mortgage Problems

As a result of more common use of financial technologies such as securitization, what is called “originate-to-distribute” business model has spread as a new form of financial intermediation, through which lenders have dispersed the credit risks of underlying assets over investors via markets.

【Three types of uncertainties have become apparent】

- (1) Risk proliferation uncertainty
- (2) Pricing uncertainty
- (3) Liquidity uncertainty

- Identification and addressing of problems related to relevant parties involved in subprime-related products is needed.
- Enhancement of supervisory functions, including responses to crises arising from markets is needed.



Main issues

- Whether or not information on the risks of underlying assets have been transmitted adequately between relevant parties such as lenders of subprime mortgages, arrangers of securitized products, credit rating agencies, distributors of securitized products and investors.
- Whether or not arrangers of securitized products intend to transfer the credit risk to investors in an easy manner by arranging products without retaining a certain portion of the securitized product.
- Whether or not credit rating agencies i) have potential conflicts of interest inherent in their rating business of securitized products, ii) have adequately disclosed information on their models and their validity, and iii) have misled investors regarding the meaning of their ratings.
- Whether or not investors including financial institutions have properly conducted risk managements and disclosure.

The Way Forward for Market Normalization from a Global Perspective

1. A wide range of issues are currently under discussion at the G7, the FSF, the IOSCO and other international forums.
2. Issues to be considered in international discussions:
 - (1) Transmission of information on credit risk of underlying assets
 - (2) Risk management by financial institutions and investors
 - (3) Issues related to credit rating agencies, including rating methodologies, the use of ratings and the supervisory structure
 - (4) Issues related to valuation and accounting treatment of securitized products
 - (5) Issues related to accounting treatment with regard to consolidation/unconsolidation of conduits and other vehicles

Measures on the Part of Our Country

1. Enhancing monitoring of markets and financial institutions by the supervisory authority
2. Strengthening international cooperation among supervisory authorities
3. Addressing the issues related to the “originate-to-distribute” business model
4. Ensuring “traceability” of securitized products back to underlying assets
5. Securitization based on statistical processing backed by sufficient data
6. Presenting principles and exploring best practices
7. Proper response to the issues related to credit rating agencies
8. Taking part in international discussions on issues related to valuation and accounting treatment of securitized products