

**Questions and Answers at “ORIX Bank: Real Estate Investment Loans
– Small Meeting” (September 27, 2018)**

Q1. What factors (collateral value, collateral property cash flow, borrower's income, borrower's asset) are important at credit screening?

A1. Although we do not focus on a specific factor, we consider that the ratio of credit outstanding to annual income is one of the key indicators. In case rental income cannot be obtained from investment real estate, it is an indicator for us to know to what extent the borrower can compensate by salary, confirming the balance of annual income, rental income and total borrowing balance. However, we also make credit judgment flexibly while taking a range of factors into account.

Q2. Several falsifications of documents are pointed out in the real estate investment loans of other banks. While it seems that banks generally put importance on borrowers' deposit balances, how do you deal with falsification risk of deposit balances? Also, tell us about falsification risk of borrower's income?

A2. Although we do not necessarily put emphasis on the borrower's deposit balance at credit screening, there are some cases where it is important, in which case the original of the bankbook etc. will be collected. In other cases, we obtain the copy of the bankbook etc. as a reference material. Also, from the borrower, not only the final return form and the withholding tax form but also the public documents such as the tax certificate and the tax payment certificate are submitted, and they are checked whether there is any difference by matching with the income amount declared by the borrower.

Q3. Are you interviewing and confirming with the borrower directly because you are assuming that it is difficult to eliminate the risk by simply selecting real estate brokers as a mean of fraud exclusion?

A3. Based on the experience of failures in the past, we are carrying out direct interviews to borrower for confirmation of the intention to invest in real estate, contract contents and risks. Also, since the ORIX Group itself is engaged in real estate business, it is also good to be able to understand what kind of fraud is likely to occur.

Q4. Provided condominium loan amount for 2018/3 was 198.7 billion yen and provided apartment loan amount was 47.2 billion yen. What is the market share of each?

A4. Estimated market share of condominium loan is around 25 to 30%, but it will vary depending on the region. The size of the apartment loan market is very large, and we cannot calculate the exact market share, but we assume it is very small.

Q5. Regarding apartment loans, the sublease problem has become obvious, and it seems some of the major real estate subleasing companies shorten the sublease period. Under such circumstances, how are you confirming factors other than the final return such as vacancy rates in ongoing credit?

A5. Basically, we are targeting properties with rental demand not relying on subleases. It is difficult to grasp all the vacancy rate and the tax return in the ongoing credit, but we are trying to grasp the situation

through monitoring as follows. we keep checking the case where it takes more than 10-minute walk from the nearest station or the area where the vacancy rate of rooms is increasing, in addition to the case where the credit outstanding is above a certain level or concern of bankruptcy.

Q6. When considering the whole real estate investment loan industry, how do you think about the problem awareness or improvements as ORIX Bank?

A6. While financial institutions should compete freely, we believe that we should have a certain level of common awareness about customer protection. We also believe that it is necessary for real estate brokers to take the same level of customer protection awareness as the financial institutions. For example, we may ask real estate brokers to strengthen their compliance system and request more detailed explanation about risks to borrowers.

Q7. Will it be considered that a recent series of issues relating real estate investment loans will lead to credit crunch in this industry?

A7. We have a feeling that investment is suppressed in part of the apartment loans, but we do not believe it will lead to credit crunch in the whole industry. Recently, we have started services that can simulate the future cash flow of real estate investment*. We aim to contribute to the healthy growth of the market by providing a mechanism that supports the transparency of the real estate investment loan industry.

*Released on August 28, 2018; "ORIX Bank Introduces Industry's First AI-supported Real Estate Investment Cash Flow Simulator for Individuals" https://www.orix.co.jp/grp/en/pdf/news/180828_ORIXE.pdf

Q8. Please tell us about the future lending stance for condominium loans and apartment loans respectively?

A8. Regarding apartment loans, we would like to deal with carefully although the amount of loan applications to us are increasing. since financial institutions are taking a cautious stance. Regarding condominium loans, the market itself is growing, so we would like to promote the business appropriately.

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