

Bright future for world's largest holder of home loans

Japan's Government Housing Loan Corporation, which has over five million outstanding loans, seems set for further growth, given the high level of demand for house purchase



The Housing Loan Corporation's head office, and its president, Shozo Kohno.

THE Government Housing Loan Corporation (GHLC) of Japan is the largest holder of housing loans in the world. It has over five million outstanding loans with a total value, at the end of 1985, in excess of \$100 billion and it has originated these loans itself. Its nearest competitor in terms of holding loans is the Federal National Mortgage Association, an American institution which purchases loans on the secondary market and which had a mortgage portfolio, at the end of 1985, of \$95 billion.

GHLC holds more than four times the amount of housing loans as the largest deposit taking lenders, the Halifax and Abbey National Building Societies in the United Kingdom and the largest Californian savings associations. The Corporation operates on a non-market basis and has little direct contact with its customers, raising its funds from a government agency (and indirectly, from the postal savings system) and lending by using banks as agents.

Housing background

The role of GHLC needs to be seen in the context of the particular housing circumstances of Japan. The economic record of Japan in the post-war years is well known. It has grown rapidly and has achieved a dominant position in many industrial markets. However, living standards have not matched the macro-economic performance; arguably, economic

growth has been at the expense of domestic welfare.

Japan has a very high savings rate which has enabled an equally high level of investment to be financed. Various explanations for the high savings rate have been put forward, including the relatively underdeveloped social welfare system compared with other countries. The result is that many Japanese families have a significant proportion of their wealth in savings rather than in housing and consumer durables.

For an industrialised country Japan has a very high proportion of people living in dwellings not connected to proper sewerage facilities (68% as against only 3% in the UK and 28% in the USA). Many houses are built of wood and have a fairly short life of perhaps 40 or 50 years. A particular problem which the country faces is that it is densely populated.

Only 21% of its total land area is classified as habitable, compared with over 60% in France and West Germany and about 50% in the USA. The density of population is 1,450 persons to the square kilometre, compared with 386 in West Germany, 357 in the United Kingdom and only 22 in the USA. The problem is tending to get worse rather than better as the population of Japan is continuing to rise rapidly and the number of households is rising even more rapidly.

Regular surveys of housing

Housing Loans Outstanding, Japan, End-1985				
Institution	Number of Loans	Amount of Loans		
		Yen bn	\$ bn	%
Housing Loan Corporation	5,569,000	21,216	104.6	35
City banks	1,390,000	8,246	40.7	13
Regional banks	1,401,000	6,221	30.7	10
Housing loan companies	431,000	5,053	24.9	8
Shinkin banks	428,000	4,699	23.2	8
Life insurance companies	532,000	3,763	18.6	6
Sogo banks	670,000	3,405	16.8	6
Trust accounts of all banks	593,000	2,463	12.1	4
Agricultural co-operatives	—	1,978	9.8	3
Labour credit associations	380,000	1,394	6.9	2
Other	315,000	2,661	13.1	4
Total	11,709,000	61,099	301.3	100

Source: *Economic Statistics Monthly*, April 1986, Bank of Japan, Table 51.

Notes: 1. Figures include loans for construction, re-building and purchasing of houses and purchasing of residential land.

2. Figure for total number of loans excludes agricultural co-operatives.

demand show the dissatisfaction with the present standards of housing. In 1983 7.1% of households said they were very dissatisfied with housing and 31.3% were a little dissatisfied. This total figure of 38% compares, for example, with a figure of 5% revealed in a recent British survey.

The Japanese Government has responded to this situation by actively encouraging a high level of investment in housing. The number of houses completed has been run-

ning at well in excess of one million a year and, by international standards, Japan devotes a high proportion of its GDP to investment in housing — 6.5% between 1960 and 1983 compared with the OECD average of 5.3%. One government agency, the Housing and Urban Development Corporation, has played a major role in constructing new houses.

It is government policy, implemented by GHLC, to provide low-interest loans for house purchase and

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Condominiums financed by Japan's Housing Loan Corporation.



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improvement. It may be questioned whether subsidised loans are necessary in a country as wealthy as Japan, but, again, the special housing circumstances need to be noted. The rapidly growing population, combined with a relatively small habitable area, means that house prices are extremely high and even a basic unit, perhaps one hour's commuting time from Tokyo, could cost upwards of \$100,000.

Constitution

The Government Housing Loan Corporation was established under the Government Housing Loan Corporation Law in June 1950 with the status of a special public corporation. Its senior executives comprise a president, a vice-president and six directors. The president is appointed by the Minister for Housing with the approval of the Cabinet, and the vice-presidents and the directors are appointed by the president with the approval of the competent Minister.

The Corporation has a relatively small staff — 1,146 in 1985 — and operates from a headquarters in Tokyo, together with 12 branch offices throughout the country and one housing centre located in Tokyo.

Lending

The Corporation accounts for over one-third of housing loans outstanding by value. After the Corporation, the other main lenders are the city banks, which, as their name suggests, have branches only in the cities, and the regional banks which operate in one or more of the prefectures into which the country is divided. Other lenders include housing loan companies (most of which are owned by other financial institutions), the shinkin banks (similar to credit unions), life insurance companies and sogo banks (mutual loan and savings banks).

Although the Corporation formally originates the loans which it holds, the actual work in making the loans is delegated to financial institutions. As at October 1985, 900 financial institutions with 11,840 outlets were com-

Number of Houses Financed by Government Housing Loan Corporation, Japan, 1980-85

Year	Owner-Occupied		For Sale		Rented		Total	
	000	% of Total	000	% of Total	000	% of Total	000	% of Total
1980	421	51	95	30	32	11	1,214	35
1981	417	52	90	35	34	11	1,143	37
1982	480	59	91	40	47	14	1,157	42
1983	373	52	87	36	43	11	1,135	33
1984	369	51	87	38	41	8	1,207	31
1985	356	48	93	41	42	8	1,251	29

Source: GHLC.

Note: The Corporation also funds a limited number of tied houses, 1,181 in 1980 falling to 310 in 1985.

missioned to handle housing loan business on behalf of the Corporation. Loans are promoted both by the Corporation and by its agents, and also by housing developers, but as they carry a below market rate of interest, extensive promotion is unnecessary.

The financial institutions handle all of the administrative work in making a loan and they also collect the repayments and handle repayment difficulties. Effectively, the agents can take the decision as to whether to grant a loan but this has to be within the guidelines laid down by the Corporation. Individuals pay a commission

for obtaining a loan of 40,000 yen (about \$200) which is usually deducted from the loan. A fee is paid to agents for introducing business.

The major part of the Corporation's lending programme is loans to private individuals who are financing the construction of their own homes. Applications under 40 cannot qualify for loans unless another person is living in the household. The housing must conform to construction standards laid down by the Corporation and must have a floor area of between 50 square metres and 165 square metres.

The maximum loan depends on the

Government Housing Loan Corporation, Japan, Assets and Liabilities, End-1985

Liabilities	Yen bn	\$ bn	%	Assets	Yen bn	\$ bn	%
Trust Fund Bureau	23,835	117.5	98.0	Private housing loans	20,631	101.7	84.9
Life Insurance and Postal Annuity	475	2.3	1.9	Rental housing loans	1,845	9.1	7.6
Debentures	149	0.7	0.1	Rehabilitations and improvement loans	782	3.9	3.2
Reserves for loan losses	17	0.1	—	Curtilage development loans	648	3.2	2.7
Capital	97	0.5	—	Redevelopment housing loans	524	2.6	2.2
				Other loans	143	0.7	0.6
				Other assets	44	0.2	0.2
Total	24,313	119.9	100.0	Total	24,313	119.9	100.0

Source: *Economic Statistics Monthly*, April 1986, Bank of Japan, Table 37.

region of the country and the structure and floor space of the house. The maximum loan to value ratio is 80% and the repayment term varies from 25 years for wooden structures to 35 years for fireproof structures. The rate of interest is 6.85% for dwellings between 135 square metres and 165 square metres. For dwellings between 110 square metres and 135 square metres, the rate is 6.4% for the first 10 years and 6.85% thereafter, and for dwellings between 50 square metres and 110 square metres, the rate is 5.5% for the first 10 years and then 6.8%. GHLC requires a first mortgage and a guarantee.

The Corporation also makes a smaller number of loans to those purchasing existing owner-occupied property. Here, the maximum loan is 60-70% of that which would apply for new housing, which means in practice a maximum loan to value ratio of about 50%, the rate of interest is 6.4% for the first 10 years and then 6.85%, and the repayment term is a maximum of 20 years.

In addition, the corporation makes loans to individuals for improvements, it operates a relatively small contractual savings scheme for house purchase, and it makes loans

to developers, for owner-occupied and rental housing and for urban renewal works.

The Corporation has been financing over one million housing units a year. Although it appears to have been accounting for a declining proportion of the total number of loans made, this reflects a reduction in activity in the owner-occupied sector, in which the Corporation has a 50% market share, and an increase in the rented sector, in which it has a much smaller market share.

Funding

The Corporation is a government agency which raises virtually no money itself on the open market. Rather, its source of funds is the Trust Fund Bureau which in turn raises its funds from the postal savings system. The system is itself the largest single holder of deposits in the world, holding personal deposits in excess of 100 trillion yen (\$495 billion) at the end of 1985.

The postal savings system hands over all the funds it collects to another government agency, the Trust Fund

Bureau. This agency in turn lends to the Housing Loan Corporation and various other government bodies. At the end of 1985, deposits in the postal savings system of 100 trillion yen (\$495 billion) accounted for 61% of the total funds in the Trust Fund Bureau of 163 trillion yen (\$804 billion). Loans by the Trust Fund Bureau to the Corporation of 24 trillion yen (\$118 billion) accounted for 15% of its total funds.

The Corporation borrows money from the Trust Fund Bureau at a rate of interest of 6.8%. The maximum rate of interest which it charges on its loans is 6.85%, and this applies only from the 11th year of the loans except for loans on the largest dwellings. The Corporation receives from the government a subsidy to cover the difference between the interest rate on its borrowings and that on its lending and also its administrative expenses. In the 1985 fiscal year this subsidy amounted to 330.9 billion yen (\$1,632 million).

It might be expected that the Corporation would have a permanent problem of meeting demand given its subsidised loans. In practice, demand is forecast using sophisticated techniques and adequate funds have been forthcoming from the Trust Fund Bureau to meet demand.

The balance sheet for the Corporation is in some respects a typical mortgage bank's balance sheet. However, it will be noted that a single source of funds, the Trust Fund Bureau, accounts for 98% of liabilities, and that reserves and capital are exceptionally low compared with those which a commercial institution would need to hold. Loans account for no less than 99.8% of total assets.

The future

Japan has a highly regulated financial system and much consideration is now being given to financial deregulation. In any such discussion, the non-market role of the Housing Loan Corporation will need to be considered. The work of the Corporation is highly regarded within Japan and no major changes are anticipated.

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Single-family homes financed by the Housing Loan Corporation.

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However, it has taken steps to supplement its funds, for example by increasing the interest rate from the 11th year on loans.

Certainly the need for a large volume of lending will continue. It is expected that new house construction will run at about 1.3 million dwellings a year with there being a major need to replace wooden structures, perhaps at the rate of 600,000 units a year. Demand for house purchase continues to run at a high

level, despite high house prices.

The Corporation seems not to have any significant potential competitors. However, the city banks and regional banks may wish to expand their personal business. The postal savings system is recognising the need to expand its operations and perhaps, in the longer term, it might prove to be a competitor to the Housing Loan Corporation for housing loans,

even while remaining, indirectly, its principal funder.

It is the general financial deregulation in Japan which is likely to affect the position of the Corporation, by removing the constraints on the bank and perhaps the postal savings system, rather than any specific action in relation to the Corporation itself. ■

The end-1985 exchange rate of 202.8 yen to the dollar has been used throughout this article.

Japan's postal savings system

THE postal savings system can be seen as an important part of the housing finance system of Japan. Although it does not make loans directly itself, it effectively funds the loans made by the Housing Loan Corporation through the intermediary of the Trust Fund Bureau.

In terms of deposits, the Postal Savings System is by far the largest financial institution in the world. At the end of 1985, deposits in the system exceeded 100 trillion yen (\$495 billion). The system therefore holds deposits more than three times those of all British building societies, more than four times those of all German savings banks, and nearly half those of all American thrift institutions.

However, the system is not really a financial institution at all: it is a state function managed and administered by the Postal Savings Bureau of the Ministry of Posts and Telecommunications. The system operates through over 19,000 post offices and 4,300 postal agencies throughout the country. In addition to providing a savings service, the system also offers a postal money order service and postal giro service.

The system offers several types of deposit. The most important is the Teigaku Deposit Certificate which accounts for nearly 90% of outstanding deposits. This scheme provides for a fixed sum to be invested on condition that it will not be withdrawn in the first six months. After this

period, withdrawals can take place at any post office. The longer the sum is deposited (up to 10 years), the higher the rate of interest payable. Currently, the rate of interest varies from 4% for deposits of one year or less, to 5.75% for deposits in excess of three years.

The other main savings product offered is the ordinary deposit which accounts for nearly 9% of total deposits. Money can be paid into or withdrawn from ordinary deposit accounts at any post office. Transactions are recorded in a pass book. The current interest rate is 2.88% a year.

Total deposits of up to 3 million yen (\$14,800) attract interest free of tax. Every member of a household can, however, hold an account and, in the past, some people have probably held more than one account but in different names. Steps have recently been taken to prevent this.

The postal savings system offers only very limited loan facilities. Rather, 99% of its funds are transferred to the Trust Fund Bureau. The system holds no reserves and in fact carries an accumulated loss on its balance sheet.

Japan has had a highly-regulated financial system and there are controls on interest rates payable to depositors. There is now a general belief that these should be removed and this is likely to expose the postal savings system to greater competition, especially as depositors can also hold 3 million yen in banks and obtain the interest free of tax.

Consideration is therefore being given as to what additional services the postal savings system might offer, especially loan facilities. This might raise the question of fair competition, bearing in mind the special status of the postal savings system and the fact that it does not seem to hold any reserves.

Personal Savings, Japan, End-1985

Institutions	Yen bn	\$ bn	%
Postal savings system	100,086	495	32
City and regional banks	99,696	493	32
Agricultural and fishery co-operatives	40,474	200	13
Shinkin banks	36,717	182	12
Sogo banks	22,789	113	7
Credit co-operatives	9,561	47	3
Labour credit associations	4,783	24	2
Total	314,106	1,554	100

Source: *Economic Statistics Monthly*, Bank of Japan, April 1986, Table 4.6.