



# **The GHLC Reform and Japanese Housing Finance Market**

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# The GHLC (Government Housing Loan Corporation of Japan) in Japanese Market

- Established in 1950, against the background of devastated housing stock due to World War II, for the purpose of stable housing finance and improving the standard of housing stock
- An independent governmental organization, supervised by the Ministry of Land, Infrastructure and Transport and the Ministry of Finance
- Financed around 30% of all houses built since the war (19 million units out of 58 million)

## The GHLC (Government Housing Loan Corporation of Japan) in Japanese Market(cont.)

- At present, around 40% of all mortgage debt outstandings are the GHLC loan
  - Outstandings of housing loans for individuals (FY 2001)  
GHLC: JPY 66 trillion (USD 550 billion),  
Total: JPY 184 trillion (USD 1530 billion)
- FY 2001, GHLC provided JPY 6 trillion loans (27% of all new loan)
- Funding mainly through the Government's Fiscal Investment and Loan Program (FILP) and Supplementary Grants from the Government's General Account

## Features of the GHLC Loan

- Long-term loans with interests fixed at low rates
- Maximum repayment period is set at 35 years, throughout which the interest rate is predetermined
  - As of march 2002, applicable rate for houses 80 m<sup>2</sup> or more and 175 m<sup>2</sup> or less is 2.75% or 2.85% for the initial 10 years and 4.00% for the remaining 25 years.

## Features of the GHLC Loan (cont.)

- LTV could have been 100%
  - reduced, according to the reform mentioned later, to 80% or 50% depending on conditions
- In order to ensure high quality housing,
  - Lower rate applies to elderly and handicapped accessible and energy-efficient type housing
  - Additional loan amount for specific equipment ex. installing equipment for elderly people
  - On-site inspection by the local government units commissioned by the GHLC

## Reform of the GHLC

- In December 2001, Japanese Government launched the overall administrative reform plan for government affiliated institutions
- The reform plan intends to pursue streamlining government's undertakings and decreasing national financial burden
- The plan stipulates that:
  - GHLC is to be abolished within 5 years
  - Loan origination by GHLC is to be reduced gradually from FY 2002, and budgetary support for interest rate will be discontinued

## Reform of the GHLC (cont.)

- GHLC will promote securitisation of housing loans originated by private financial institutions, and a new administrative institution will be established in order to take over this undertaking after abolition of GHLC
- Whether or not the new administrative institution will originate housing loans will be decided taking into account the development of private financial institutions' performance in this regard

# Long-term Loans with Low Fixed Interest Rates

- Future borrower's burden of interest payments is fixed at low level and definitely predictable, which is of critical importance to supply good housing stock
- GHLC has been consistently providing such mortgages since its establishment
- Meanwhile, Housing loans of long-term fixed interest rate type conducted by private financial institutions remain in a small amount (the share of loans with fixed rate over 10 years: 4-5%)

## Long-term Loans with Low Fixed Interest Rates (cont.)

- Loan providers will bear various risks due to loans of this type such as:
  - Credit risk - Interest rate risk
  - Prepayment risk - Liquidity risk
- GHLC has been able to take these risks mainly through funding from the Fiscal Investment and Loan Program (FILP, long-term fixed rate funding for government affiliated institutions such as GHCL) and budgetary support from the government

## Securitisation of Private Financial Institution's Housing Loans

- The overall administrative reform plan, together with the reform of FILP, will make the provision of long-term with low fixed interest rates loans by GHLC difficult
- Japanese government and GHLC decided, by means of securitisation of private financial institution's housing loans, to try to enable them to provide such loans

## Securitisation of Private Financial Institution's Housing Loan (cont.)

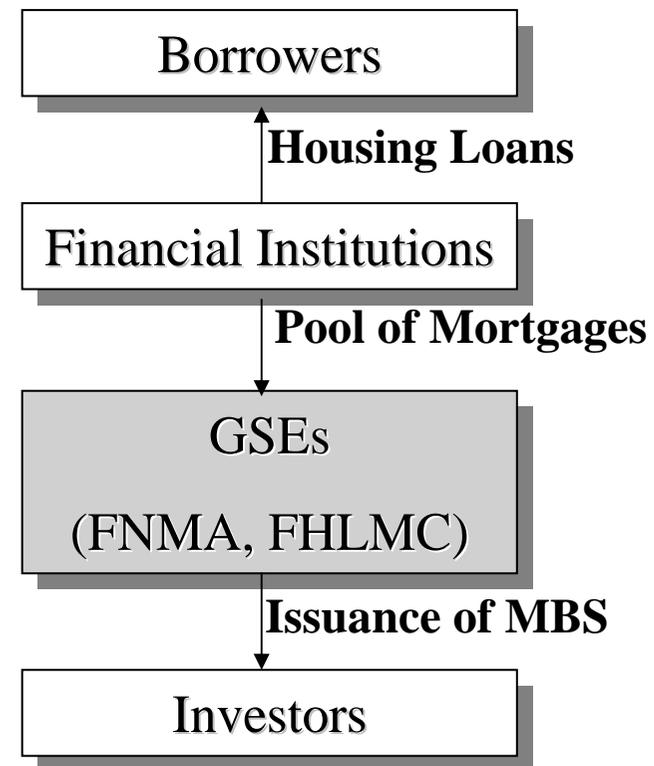
- As is well-known, housing loans are suitable for securitisation, because they are (relatively) homogeneous and exist in large volume
- In the US, well advanced securitisation of mortgage loans enables private institutions to provide long-term (30 years) fixed rate loans, and Germany has its “Pfandbrief” which makes such loans (15 years) available

## Models to be Pursued

- Japanese government and GHLC surveyed overseas MBS markets, and models in the US market will be pursued taking account of its scale and function
- Aiming at forming a well functioning MBS market for a rather short period, GHLC (and succeeding new administrative institution) will take a leading role
- How GHLC participates in the market:
  - “GSE Conduit” model
  - “Government Conduit” model

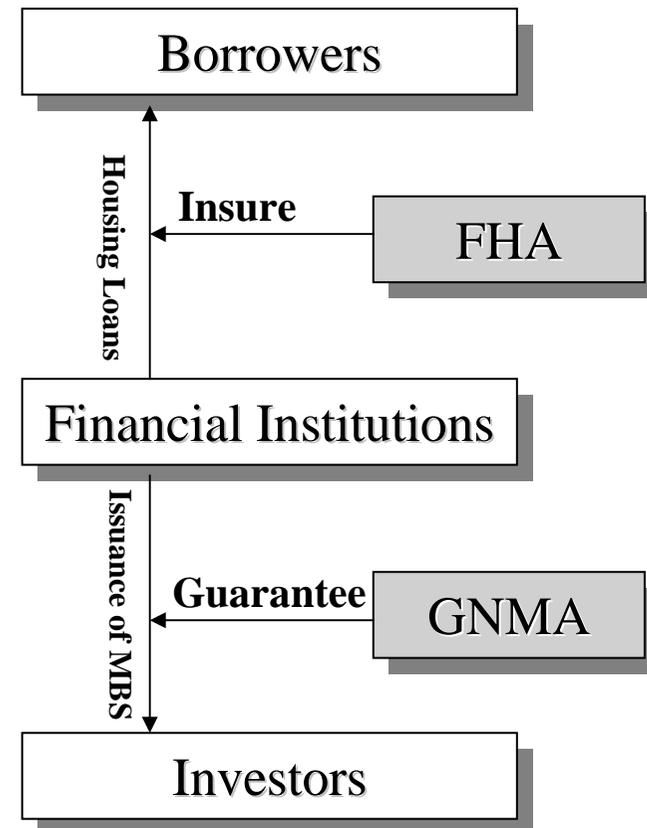
## How GHLC participates in the market: “GSE Conduit” Model

- GHLC purchases housing loans originated by private financial institutions
- Loans eligible for purchase by GHLC are required to be long-term fixed rate and observe other criteria in order to ensure high quality housing (similar to the case of the right figure)



## How GHLC participates in the market: “Government Conduit” Model

- GHLC guarantees payment of MBS to investors, and also insures lenders in case of borrowers default
- Loans eligible to be insured by GHLC are required to be long-term fixed rate and observe other criteria in order to ensure high quality housing  
(similar to the case of the right figure)



## How GHLC participates in the market (cont.)

- While capital market remains relatively undeveloped in Japan and MBS market is actually non-existent at the moment, “GSE Conduit” model is more beneficial in order to develop MBS market through issuing MBS on GHLC’s initiative
- GHLC plans to “purchase” mortgages from the second half of FY 2003 (and considers establishing “Government Conduit” scheme as well in FY 2004 or later)

## Other Issues to be Addressed

- Ensuring the amount of loans needed, while loan origination by GHLC will be reduced gradually
- Ensuring high quality housing through setting criteria for housing loans which GHLC will purchase or guarantee
- Borrower education: Interest rates of loans would become higher because budgetary support will be discontinued and level of interest rates would follow market development to greater extent



Thank you for your attention