



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 m² or more and 175 m² 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.)

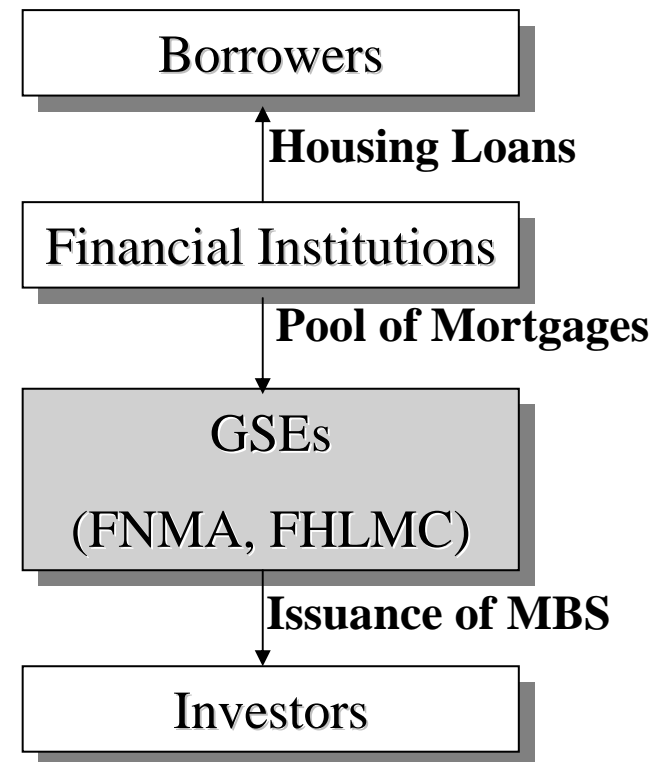
- As is well-known, housing loans are suitable for securitisation, because they are (relatively) homogeneous and exist in large volume
- In the US, well advanced securitisation of mortgage loans enables private institutions to provide long-term (30 years) fixed rate loans, and Germany has its “Pfandbrief”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

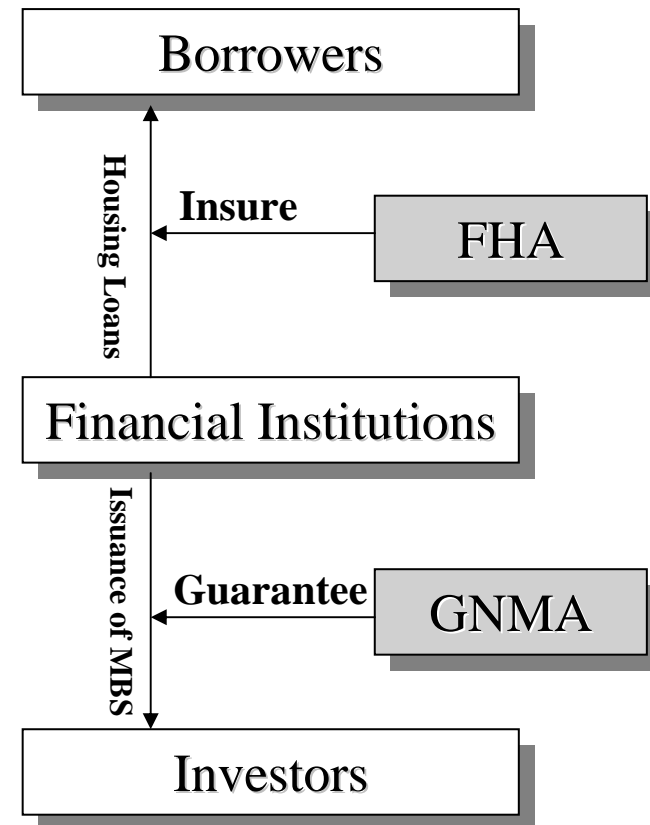
How GHLC participates in the market: “GSE Conduit” Model

- 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