Session Presenter

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Masahiro is Housing Finance Specialist and the Executive Director, Member of the Board of the Japan Housing Finance Agency. He is currently working on several projects on green housing finance in Asia, among others. He sits on the Advisory Board of Asia Pacific Union for Housing Finance. He has published 13 books. His paper "The Housing Market and Housing Policies in Japan" was included in the ADBI publication "The Housing Challenge in Emerging Asia: Options and Solutions" in autumn 2016.

Earlier, he worked at the Overseas Economic Cooperation Fund (now merged with JICA) as a resident representative of Manila Office and was seconded to Fannie Mae as a special trainee in the US.
He teaches at Graduate School of Business and Finance, Waseda University.
He has a Bachelor of Laws from University of Tokyo, Japan.

ADB Webinar on
Affordable Housing Financing
November 9, 2022

Affordable housing finance for the poor : Learnings from mortgage market in Japan

住まいのしあわせを、ともにつくる。
住宅金融支援機構

KOBAYASHI Masahiro

Executive Director, Member of the Board,
Japan Housing Finance Agency (JHF)

Housing policy after the World War II

- **Housing shortage of about 4.2 million units after the World War II**

  ▼ Three Pillars for Housing Policy to increase housing units

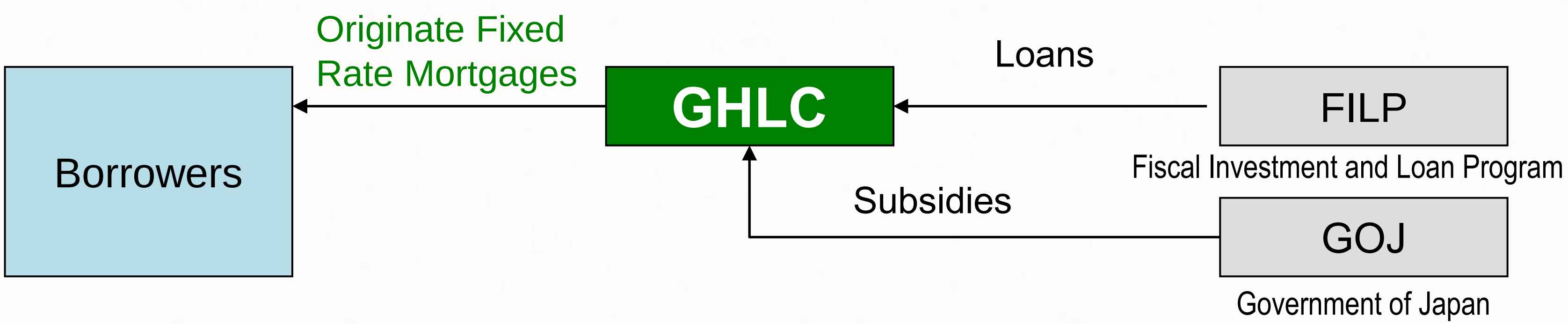
  Ⅰ Public Rental Housing (since 1951)
  Supply of low-rent housing for low income people

  Ⅱ Japan Housing Corporation (JHC) (since 1955)
  (Reorganized into Urban Renaissance Agency (UR) in 2004)
  Collective construction of housing and large-scale supply of residential land for middle income people mainly in major urban areas

  Ⅲ Government Housing Loan Corporation(GHLC) (since 1950)
  (Reorganized into Japan Housing Finance Agency (JHF) in 2007)
  Promotion of housing construction through public financing

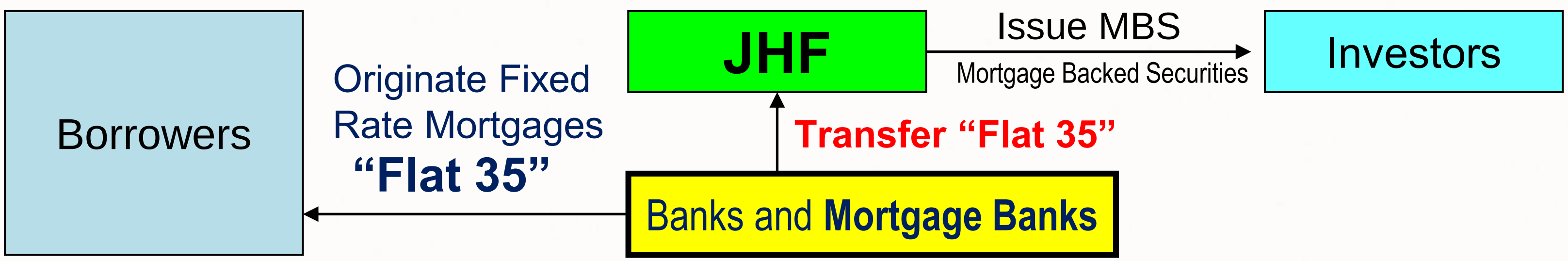
- **Housing Construction 5-year Program**
  - Formulated 8 times since 1966; 8th program ended in 2005
  - Targets were set for numbers of houses to be constructed by public organizations,
    JHC and GHLC, every five years.

Business model of GHLC



- GHLC originated fixed rate mortgages in the primary mortgage market.
- Funding source of GHLC loans was the borrowing from the Fiscal Investment and Loan Program (FILP) managed by Ministry of Finance.
- GHLC received subsidies from the general appropriations of the Government of Japan.
- Borrowers of GHLC loans could prepay without penalties. However, GHLC had to pay penalties if it would prepay the borrowing from FILP.

Business model of JHF



- JHF does not originate mortgages in the primary mortgage market. Instead, JHF purchases 35 year fixed rate mortgages originated by private financial institutions under its secondary market operation similar to Fannie Mae.
- Funding source of JHF is mortgage backed securities (MBS). Investors of MBS in the capital market underwrite prepayment risk as well as interest rate risk with a certain premium.
- JHF does not receive operating subsidies.

(Note) JHF originates loans in the primary market in exceptional cases.

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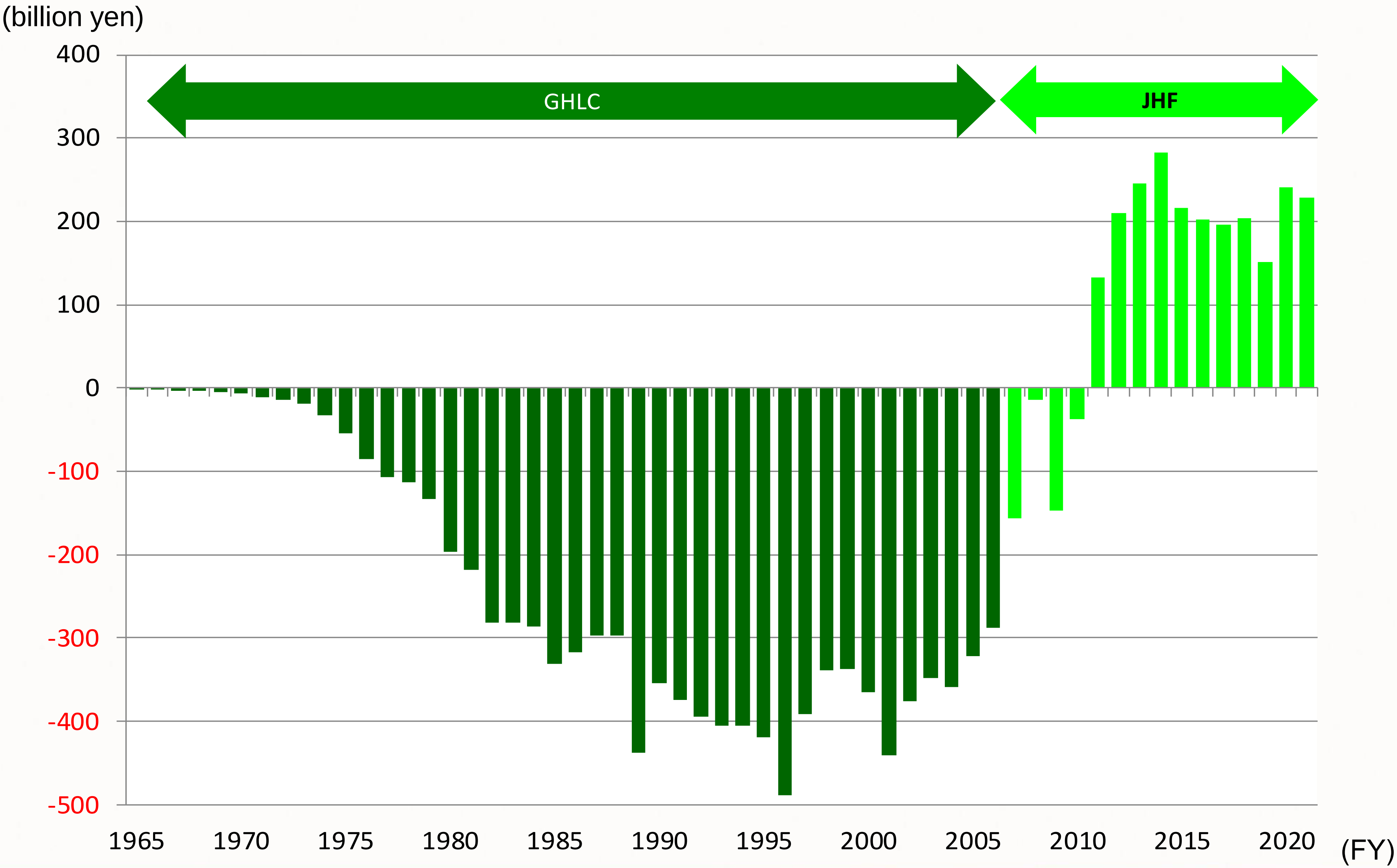
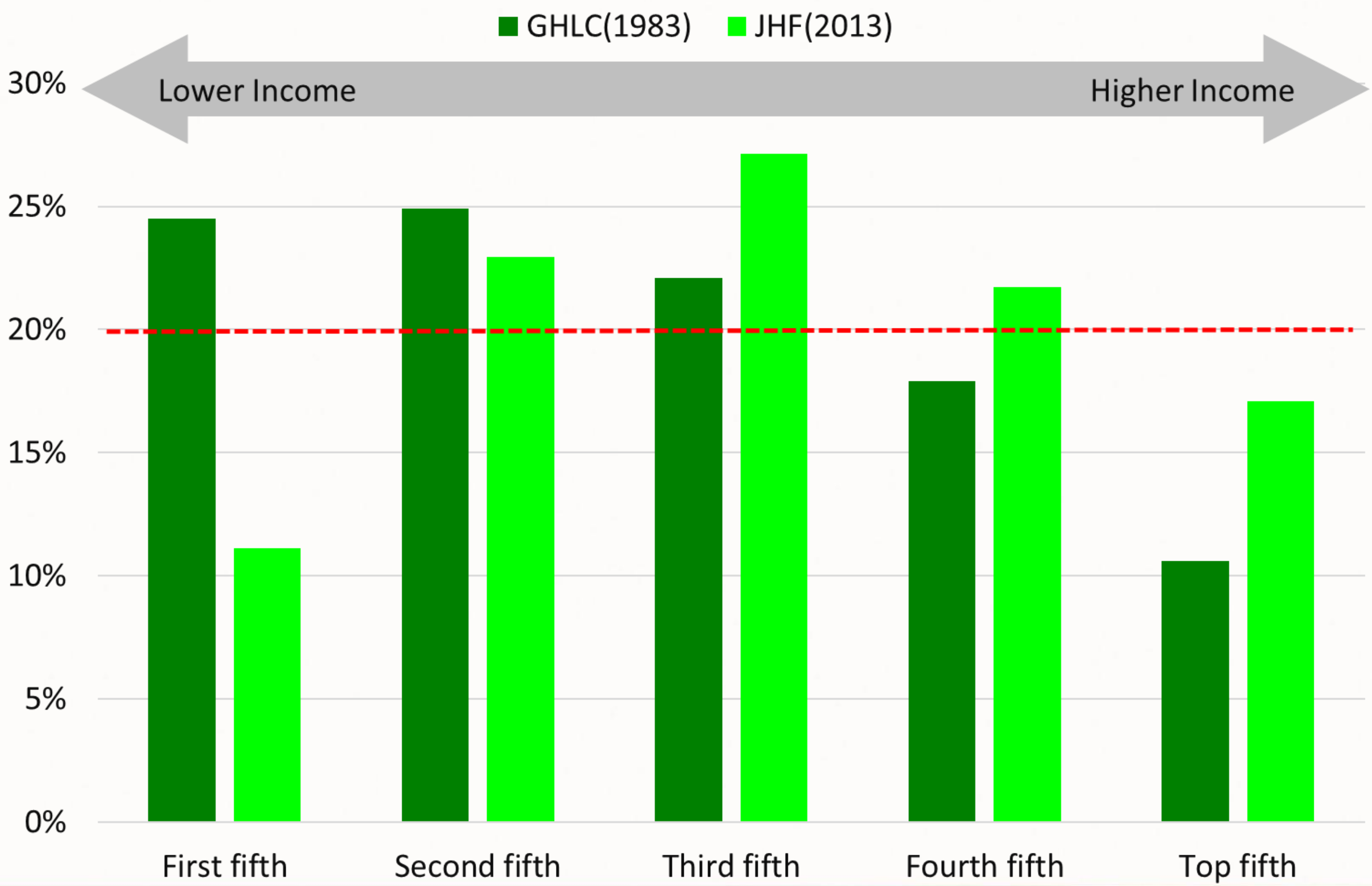
Net income (loss) of GHLC and JHF



(Source) JHF

Targeted group by income bracket

The distribution of the income bracket of the UR in 2013 and the GHLC in 1983 have a larger share in the lower-income bracket than the overall population but a smaller share in the higher-income bracket. However, the JHF, having a lower share in the high-income bracket, has a lower share in the lowest 20%.



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Elements of affordability

Elements of affordability can be decomposed into the following;

- Home price
- Income
- Terms of mortgage
  - maturity
  - interest rate
    - overall inflation rate
    - spread to the benchmark treasury bond

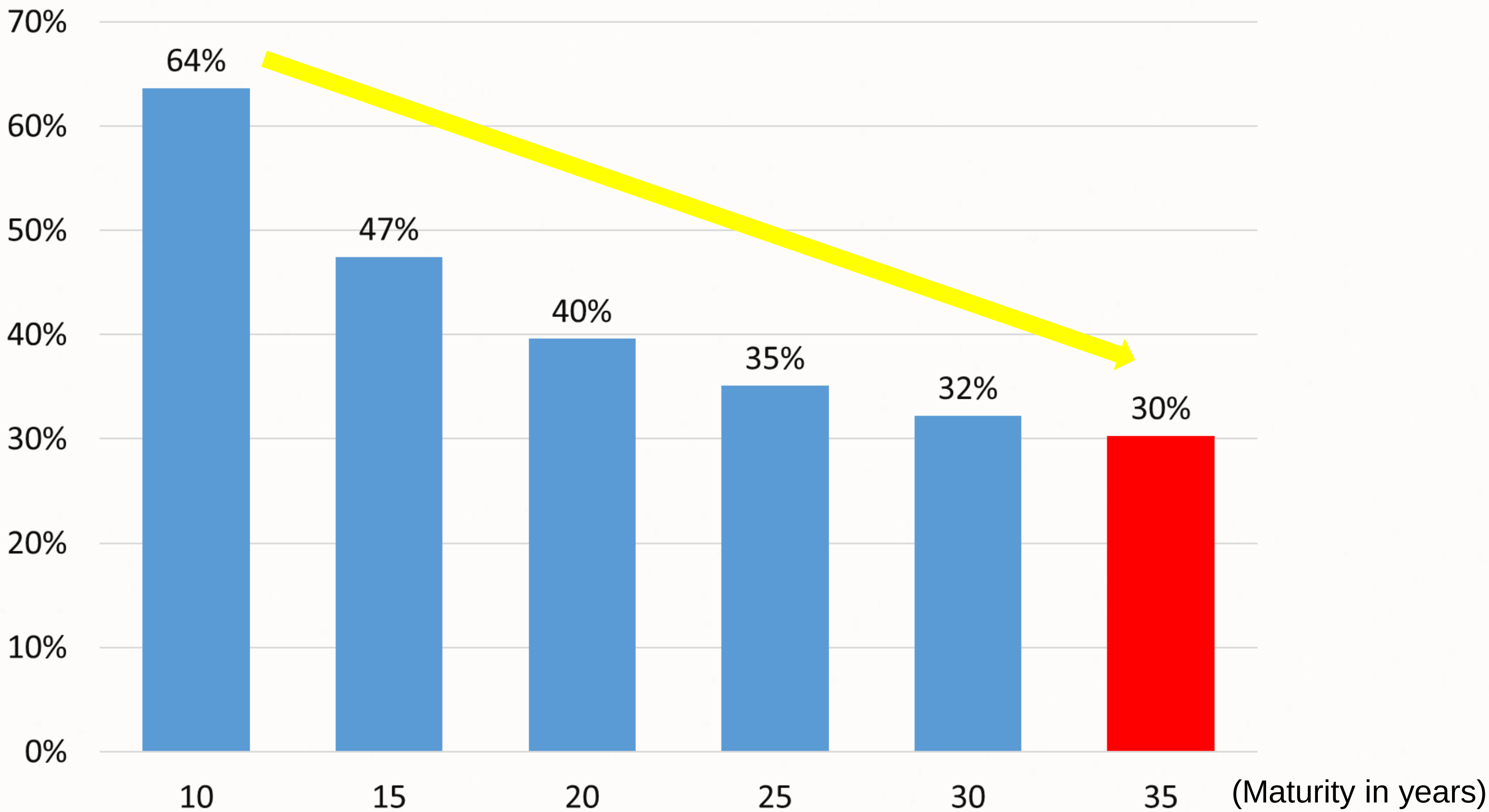
Price to income ratio(PTI)

Debt to income ratio (DTI)

Longer maturity enhances affordability

If the borrower purchase a house priced at 5 times of his/her income with 5% interest mortgage to be paid within 10 years, DTI will be 64%. DTI will decline to 30% if the maturity is extended to 35 years.

DTI by maturity based on PTI at 5 times and interest rate at 5% per annum



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Extension of maturity of mortgage

Mortgages become more affordable if the maturity is extended.

In Japan, typical maturity of mortgage is 35 years. JHF raises its fund by issuing mortgage backed securities (MBS). However, development of MBS market depends on the development of overall capital market, which will take time.

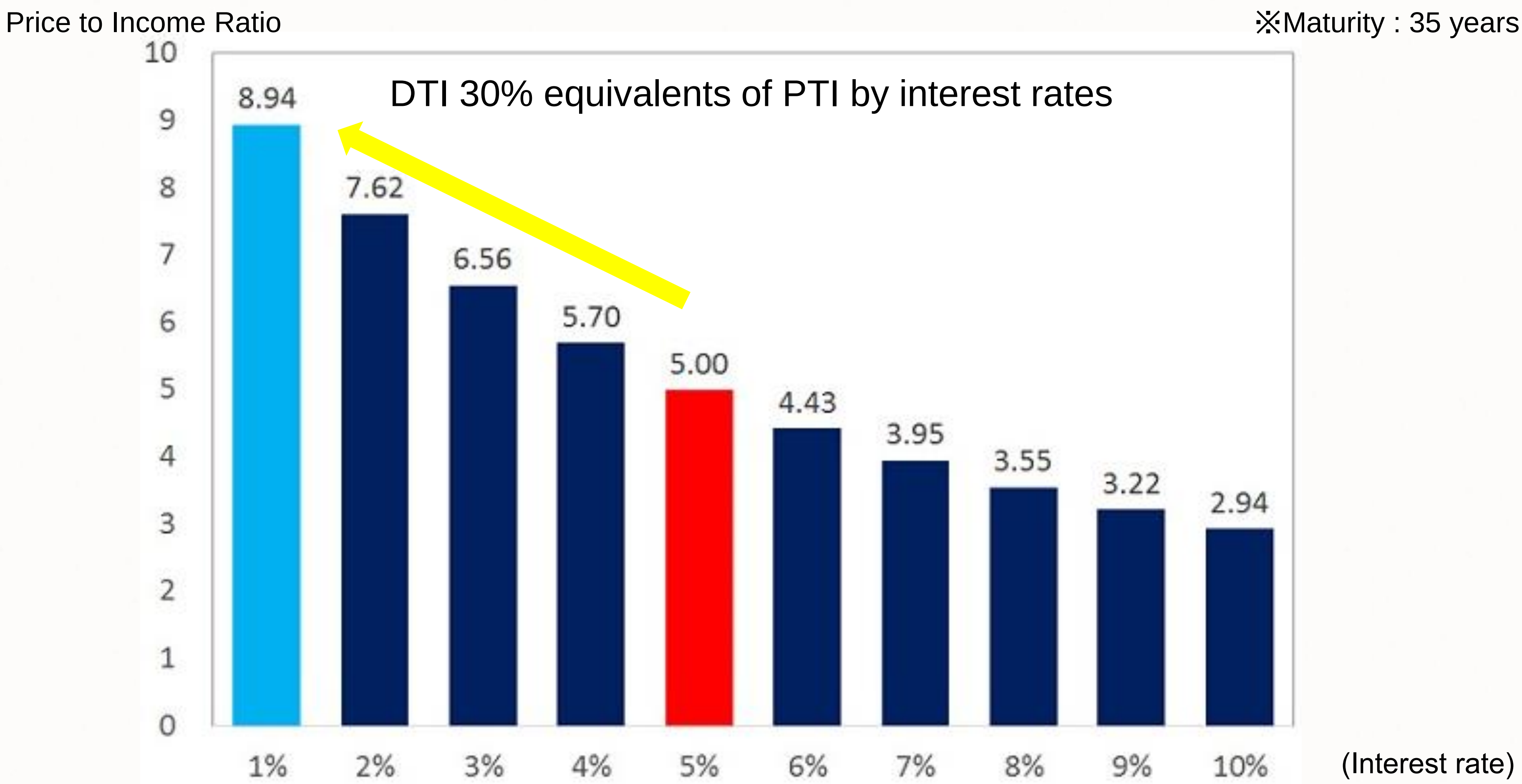
In the past, GHLC was dependent on the borrowing from the Fiscal Investment and Loan Program (FILP) wherein it was mandatory for the retail deposits at the state-run Postal Savings to be trusted at the FILP managed by Treasury Bureau of Ministry of Finance and FILP extended long term funding for participating GFIs including GHLC. Under this scheme, FILP undertook the maturity transformation function.

In order to accumulate domestic savings to finance housing, such schemes as central provident fund, bausparkasse, and covered bond are introduced in many countries. Donor funding might be also effective to develop the mortgage market from the beginning; in Myanmar, JICA extended concessional loan to CHID Bank in 2018.

Donor funding to develop nascent mortgage market → **Government housing bank model using domestic savings** → **Secondary mortgage market model using capital market**

Lower interest rate also enhances affordability

If mortgage interest rate is 5%, borrower can afford to purchase a house priced at 5 times of his/her income with DTI 30% limit. If interest rate declines to 1%, he/she can afford to purchase a house priced at nearly 9 times of his/her income with same monthly payment.



Reduction of interest rate of mortgage

35 year fixed rate mortgage is available at 1.48% in Japan as of October 2022.

In the past 35 years, inflation rate as measured by the year over year change of consumer price index (CPI) averaged at 0.26% and remained well anchored.

Under such circumstances, the spread of the JHF MBSs over 10 year JGB have been priced around 30 basis points plus (0.30%+). JHF has been consistently issuing MBS amounting 2 trillion yen every year regardless of market conditions and this granted JHF MBS a benchmark status in Japanese securitization market.

During the period of GHLC, it used to receive subsidy from the government to reduce the interest rate, but this scheme was abolished because it was regard as not sustainable.

GHLC financed 19.41 million houses from 1950 to 2007. Is was a success in terms of supporting the homeownership among the poor with subsidies, but such a scheme should be well programed with clear exit strategy, hopefully with development of secondary mortgage market using market function. In this regard, we are proud that JHF made a successful transition, but focus area is sifted from the poor to the middle class.

There is no silver bullet on this mater. JHF has been working with our counterparts in Asia to exchange views and opinions at various platform including ASMMA.
(http://www.asmma.asia/)

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