

# The Government Housing Loan Corporation

## 1. Summary of operations implemented using FILP funds

To support citizens as they acquire quality homes in a sound and secure manner and to ensure that effective use of residential stocks, financing (housing loan programs) are provided to citizens of every class for the necessary funds to build, purchase, or renovate homes in the event that there is difficulty in receiving financing from private institutions, including banks.

Note: Operations not eligible for FILP include *Zaikei* residence fund loan program (one of housing loan programs) and the housing loan insurance business.

## 2. Amount of lending under FY 2002 FILP

(Unit : billion yen)

FY 2002 FILP	Estimated outstanding amount of FILP lending at end of FY 2001
4,966.9	73,013.3

## 3. Outcome and social and economic benefits of operations

### 1) Financing

- On a contract basis from FY 1950 to FY 2000 (cumulative total)  
18.59 million units: ¥172.1207 trillion
- Financing in FY 2000  
0.53 million units: ¥9.7693 trillion
- Outstanding balance as of the end of FY 2000  
5.47 million units: ¥75.9221 trillion

### 2) Stable and fair supply of long-term fixed loans

- Supply long-term fixed interest loans required to acquire housing through a stable repayment plan that is not affected by the state of interest rates.

### 3) Improvement of the ability to acquire a home

- By lowering the minimum annual income eligible for housing loans, the Government Housing Loan Corporation (GHLC) has contributed to the improvement of citizens' ability to acquire a home and has helped them to acquire their homes.
- Compared with using only private funds, households eligible to acquire housing would increase by 9.7% if GHLC loans are used.

Note: Assumed that a condominium (price ¥37.30 million, down payment ¥7.50 million; according to the FY 2000 survey) is purchased.

### 4) Improvement of the level and quality of housing

- Improvement of quality of housing with lower interest rates  
Ratios of implementation:
  - Barrier-free housing 61.1%
  - Energy-saving housing 63.3%
  - Highly durable housing 100%

Note: Percentage through financing for new owner-built houses (based on FY 2000 Survey of Scales and Standards of Housing Built Using GHLC Loans)

### ○ Inducement to build quality housing

Realize an improvement of the level of housing, for example, increased floor space, with the use of GHLC loans

#### Average Floor Space of Owner-Occupied Housing (FY 2000)

GHLC financed	Privately financed
142 m <sup>2</sup>	137 m <sup>2</sup>

Source: "Housing Starts Statistics," Ministry of Construction and Transport

#### Average Floor Space of Rented Housing (FY 2000)

GHLC financed	Privately financed
67 m <sup>2</sup>	48 m <sup>2</sup>

Source: "Housing Starts Statistics," Ministry of Construction and Transport

### 5) Contribution to sustaining the economy through economic effects of housing investments

- Economic contribution of GHLC loans (estimated by the GHLC: FY 2001)
  - Housing investment through GHLC loans: about ¥8 trillion
  - Production inducement: about ¥16 trillion
  - Contribution to consumer durables: about ¥1 trillion (Average amount of purchase of consumer durables per household: about ¥2.26 million)

## 4. Estimated policy (subsidy) cost analysis of the project

### Outline of estimate

- An estimate was made for housing loan programs except for *Zaikei* residence fund loan (the housing loan insurance business is excluded).
- An estimate was made for the outstanding balance of past loans (¥73 trillion as of the end of FY 2001) and the housing loans to be made per the FY 2002 plan (480,000 houses, ¥7.8 trillion).
- An analysis was made for a 32-year period during which the repayment for past loans and those that will be made per the FY 2002 plan will be completed (32-year period for FY 2001 as well).
- Based on the above assumptions, necessary financial assistance for the implementation of projects was calculated. It is assumed that a surplus will be generated and paid to the national treasury in the future due to the two-step interest rate loan system. (Interest rates are to be raised in the 11th year of the loan period.)

### Policy (subsidy) cost

(Unit : billion yen)

Category	FY2001	FY2002	Increase/Decrease
1. Subsidies from the national treasury	1,758.4	1,562.8	- 195.6
2. Opportunity cost of capital investment from the national treasury	89.2	88.1	- 1.1
Subtotal (1+2)	1,847.6	1,650.9	196.7
3. Money transfer to the national treasury	- 2,002.5	- 2,085.8	- 83.3
Total (1+2+3=policy cost)	- 154.9	- 434.9	280.0
Analysis period ( years )	32	32	—

Compared with the policy cost for FY 2001 (- ¥154.9 billion), policy cost has declined. The reason for this is that subsidies from the national treasury decreased by ¥195.6 billion and money transfer to the national treasury increased by ¥83.3 billion. This is because, regarding interest on money loaned for the initial ten-year period, money loaned during the period of high interest rates, when rates were lower than interest rates on funds raised, has decreased. In addition, as a result of programs executed during FY 2002, some funds were replaced at a relatively low interest rate level and overall the difference between revenues and expenditures, interest on fund raising and financing, shrank.

### The case if assumption is changed

(Unit : billion yen)

Changed assumption and extent of change	Increase / decrease in policy cost
Interest rate on funds raised +1%	893.3

### (Reference)

Budgeted amount of subsidies and capital investment in FY 2002

Subsidies: ¥373.5 billion

Capital investment: —

## 5. Projections in the analysis

- 1) An estimate was made for loans that will be made per FY 2002 plans that the repayment of those are to be completed in a period of 32 years.
- 2) The prepayment is estimated using the measuring model which calculates the prepayment rate using the elapsed years of loans and the gap in interest rates between private housing loans subject to funding.
- 3) The loans charged off rate is assumed to be 0.00284%, the average figure for the past five years. The total amount of loans charged off during the 32-year analysis period was ¥18.4 billion.

	Result					Estimated	Trial assumption				
FY	1996	1997	1998	1999	2000	2001	2003	2004	2005	2006	2007
Advanced redemption rate	8.58%	8.60%	9.29%	9.13%	7.52%	8.65%	7.83%	7.11%	6.46%	6.02%	5.54%
Loans charged off rate	0.00049%	0.00203%	0.00277%	0.00135%	0.00756%	0.00545%	0.00284%	Same as left	Same as left	Same as left	Same as left

  

FY	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Advanced redemption rate	5.11%	5.03%	5.23%	5.34%	5.20%	4.81%	4.51%	4.34%	3.98%	3.64%	3.32%

  

FY	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029
Advanced redemption rate	3.02%	2.45%	2.35%	2.13%	1.93%	1.75%	1.59%	1.46%	1.32%	1.17%	1.13%

  

FY	2030	2031	2032	2033
Advanced redemption rate	1.08%	0.70%	0.60%	0.00%

\* The same loans charged off rate as the rate for FY 2003 is used for FY 2004 and beyond.

- 4) The rate of reserve for possible loan loss used is 0.06%, which reflects the reserve for possible loan loss included in accounting based on private corporate accounting principles (end of FY 2000: ¥41.1 billion; reserve for possible loan loss/loan balance = 0.054%). The calculation of the reserve for possible loan loss based on private corporate accounting principles also includes all or a part of the portion preserved by security (mortgage settled on financed property) and joint surety. Therefore, some loan loss can be recovered through the execution of the disposal or guarantee of security. Taking into consideration that the analysis period covers a long period of 32 years and that to date the actual amount of loans charged off have differed considerably depending on the fiscal years, the analysis concerned used the average rate of loans charged off for the past five years.  
The balance for risk management loans at the end of FY 2000 was ¥1,349.2 billion.

## 6. Reasons for granting of subsidies, mechanism and underlying laws

To contribute to the expansion of an individual's ability to acquire a home, the necessary funds as compensation for expenses, including the gap in interest rates between fund raising and financing that occurs during the process of the government's long-term and low-interest housing loans, are granted as financial assistance from the general accounts of the national treasury.

Moreover, the necessary funds to compensate for the extraordinary losses accrued from past fiscal years (without accepting financial assistance) are supplied as grant-in-aid from the general accounts in a later fiscal year.

(Underlying laws and regulations)

- 1) Financial assistance (budgetary measures)

- 2) Grant-in aid (supplementary provisions of the Government Housing Loan Corporation Law)

Based on the regulations of the Government Housing Loan Corporation Law, the extraordinary losses carried forward that are equal to or less than the amount of the interest on loans (calculated by the portion of the rate exceeding 6.5%) are supplied as grant-in-aid by FY 2005. In addition, the extraordinary losses carried forward that are equal to or less than losses generated by the prepayment in FY 1995 and FY 1996 are supplied as grant-in-aid by FY 2007.

Extraordinary loss system: Article 13 of the supplementary provisions of the Government Housing Loan Corporation Law

Extraordinary loss: Article 10 of the supplementary provisions of enforcement regulations of the Government Housing Loan Corporation Law

Receipt of grant-in-aid: Article 15 of the supplementary provisions of the Government Housing Loan Corporation Law

The year of the receipt of grant-in-aid: Article 9 of the supplementary provisions of enforcement regulations of the Government Housing Loan Corporation Law

- 3) The Government Housing Loan Corporation Law provides for payment to the national treasury.

If profits occur in its statement of profits and losses in each operating year, the Corporation shall pay them to the national treasury by May 31 of the next fiscal year. (Clause 1, Article 27 of the Law)

## 7. Special remarks

- 1) Most of the policy (subsidy) costs of GHLC loans are incurred due to the government policies of maintaining low interest rates on housing loans. In other words, through GHLC loans, efforts are made to increase the ability to obtain housing, improve the level and quality of housing, and expand housing investment.
- 2) The policy cost that is estimated based on the basic interest rate scenario for this term is negative because, during this term, the amount of money transferred to the nation exceeded the amount of financial assistance received from the national treasury. This is based on the assumption that the interest rate would continue to stay at a low level in the future. This means the interest rate for loans would increase (the two step interest rate system), on the other hand, the rate for the funds to be replaced would remain low. Based on these, it is assumed that a considerable amount of profit will be generated in and after FY 2008.
- 3) This analysis is subject to financing activities involving ¥70 trillion and more. The estimation figures can be largely influenced by, for example, a 1% change of interest rate, since the figures are large-scaled and also influenced by prepayment.  
If the interest rate were changed by  $\pm 1\%$  in each FY during the period analyzed, the policy cost would increase by ¥893.3 billion and ¥1,266.2 billion, respectively.
- 4) The policy (subsidy) costs, including those estimated based on the non-standard interest rate scenario, should be assessed from a comprehensive standpoint. The reasons are as follows:
  - The analysis based on the basic interest scenario of this term assumed that a certain amount of profit would be generated from FY 2008. However, until FY 2007, a considerable amount of expenses needs to be covered from the national treasury.
  - The major assets (housing loans) are influenced by the prepayment system, which is a characteristic system of this particular type of loan. Thus, figures of analysis can be largely influenced by the interest rate scenario of the term in question.
- 5) According to the Reorganization and Rationalization Plan for Special Corporations, "The general rule regarding financing is to incrementally reduce financing from FY 2002 and not have interest subsidies be an assumption." In view of this, the interest on financing for FY 2002 is not premised on operating expenses that reflect the reduction in financing rate and on interest subsidies. Regarding the Reorganization and Rationalization Plan for Special Corporations' stated "abolition (of special corporations) within five years," since the particulars have not been decided at the present time, an analysis was carried out based on the existing corporate forms.

**(Reference) Financial Statements****Balance Sheet**

(Unit : million yen)

Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)	Item	End of FY 2000 (Result)	End of FY 2001 (Estimated)	End of FY 2002 (Planned)
<b>(Assets)</b>				<b>(Liabilities and capital)</b>			
Loans	75,922,074	74,364,154	74,746,887	Borrowings	74,853,314	72,400,393	71,690,297
Cash and deposits	748,712	315,936	283,674	Funds for financial loans	73,315,739	71,087,352	70,563,755
Securities	6,114	16	16	Reserve surplus for postal insurance money	1,380,429	1,122,933	880,111
Agency accounts	291,036	292,000	242,000	Loan from private institutions	157,146	190,108	246,431
Accrued revenue	257,284	241,032	231,898	Bond issued	1,797,655	2,287,295	3,332,989
Interest on loans receivable	257,032	240,685	231,567	GHLC bond	651,600	955,881	1,786,225
Trust fee receivable	252	347	331	Property accumulation residence bond	614,600	780,600	967,400
Other assets	557	557	557	Housing and building bond	531,455	550,815	579,364
Fixed Assets				Accounts payable	163	274	293
Fixed Assets for 20 operations	18,464	23,845	24,051	Accrued expenses	742,805	683,776	636,374
Deferred assets				Interest on borrowings payable	733,162	677,472	628,390
Discounts on bonds	51,017	44,852	48,004	Interest on bonds payable	2,336	1,912	4,227
Reserve for possible loan loss	- 45,827	- 45,331	- 44,487	Consignment fee payable	7,308	4,392	3,757
Extraordinary losses	495,200	341,400	341,400	Okinawa finance corporation fee payable	0	0	0
Deferred extraordinary losses	463,100	341,400	341,400	Other liabilities	11,697	11,697	11,697
Extraordinary losses for the term	32,100	0		Reserves for outstanding claims	5,775	6,931	6,960
				Unearned premium	12,600	18,671	25,808
				(Total liabilities)	77,424,010	75,409,038	75,704,419
				Capital	166,200	168,700	168,700
				General account	86,200	86,200	86,200
				Industrial investment	54,500	54,500	54,500
				Grant to counter part fund	10,000	10,000	10,000
				Housing loan insurance fund	15,500	18,000	18,000
				Surplus reserve			
				Reserve for housing loan insurance	1,257	619	723
				Net Profit	153,162	104	158
				(Total capital)	320,619	169,423	169,581
<b>Total assets</b>	<b>77,744,629</b>	<b>75,578,461</b>	<b>75,874,000</b>	<b>Total liabilities and capital</b>	<b>77,744,629</b>	<b>75,578,461</b>	<b>75,874,000</b>

**Income Statement**

(Unit : million yen)

Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)	Item	FY 2000 (Result)	FY 2001 (Estimated)	FY 2002 (Planned)
<b>(Losses)</b>				<b>(Profits)</b>			
Ordinary expenses	3,209,635	3,052,940	2,901,609	Ordinary profits	3,330,414	3,053,044	2,901,767
Interest on loan	3,018,737	2,852,232	2,686,701	Interest on loans	2,684,987	2,508,128	2,413,182
Interest on bonds	27,246	30,951	38,513	Housing loan insurance premium income	2,998	12,655	12,349
Claims	5,725	8,106	8,234	Loan fee and other revenue	21,942	18,995	22,147
Expenses for entrusting business	45,441	43,085	45,434	Trust fee	1,518	1,956	1,807
Administrative expense	23,295	23,211	24,112	Receivings from the general account	518,500	440,500	375,900
Bond issuing costs	7,092	7,828	10,050	Grant-in-aid	364,700	440,500	375,900
Amortization cost	17,885	15,693	10,410	Subsidies	153,800	0	0
Loans charged off	5,738	4,000	0	Interest on deposits	5,603	2,225	2,230
Depreciation cost of 20 fixed assets	411	432	470	Profit from securities	23	1,400	65
Depreciation on margin from bond flotation	11,736	11,261	9,940	Miscellaneous revenue	2,688	2,982	3,154
Provision for reserve for outstanding claim	5,775	6,931	6,960	Reversal of reserve for outstanding claims	5,599	5,775	6,931
Provision for unearned premium	12,600	18,671	25,808	Reversal of reserve for unearned premium	12,401	12,600	18,671
Provision for reserve for possible loan loss	45,827	45,331	44,487	Reversal of reserve for possible loan loss	74,175	45,827	45,331
Miscellaneous loss	11	0	0	Extraordinary profits			
Reserve fund	0	900	900	Gain from sales of fixed assets	283	0	0
Net Profit	153,162	104	158	Extraordinary losses			
				Extraordinary losses for the term	32,100	0	
<b>Total</b>	<b>3,362,797</b>	<b>3,053,044</b>	<b>2,901,767</b>	<b>Total</b>	<b>3,362,797</b>	<b>3,053,044</b>	<b>2,901,767</b>

Note: Figures are rounded to the nearest million, therefore, the total may not represent the total of the figures on the table.

\* Both the balance sheet and income statement include figures concerning Zaikel residence fund loan program and housing loan insurance business (that are not subject to the Fiscal Investment and Loan Program).