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3 Housing Finance in Japan

Miki Seko

3.1 Introduction

The main issue of housing in Japan is affordability. Due to social and economic factors, the price of housing in Japan is extraordinarily high. Moreover, Japanese financial institutions do not lend on as generous terms as in other countries, placing significant liquidity constraints on aspiring homeowners.

In this paper I examine several problems of financing the purchase of housing in Japan in order to identify directions for future reform in Japanese housing finance in the context of ongoing financial liberalization initiatives. Housing finance in Japan is predominantly generated from the deposit-taking system, whether by commercial banks or public-sector lending institutions. Reforms, therefore, should focus on means to broaden the source of funds as one strategy to remove credit constraints and to mobilize capital more efficiently for housing finance.

Public-sector lending plays an important role in the Japanese housing finance system. The government-run Japan Housing Loan Corporation (JHLC) is the largest single mortgage lender in the world and accounts for some 25 to 35 percent of housing loans in Japan. Unlike other advanced industrial nations, Japan has no major private-sector institutions that specialize in housing finance, like the savings and loan associations in the United States and building societies in the United Kingdom.

Section 3.2 is an overview of the Japanese housing finance market and hous-

Miki Seko is professor of economics at Nihon University, Japan. The final version of the paper was written while she was a visiting scholar at the Department of Economics at MIT and the Center for Real Estate and Urban Economics at the University of California at Berkeley.

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ing finance systems. Section 3.3 examines JHLC home financing policy in terms of efficiency and equity. Section 3.4 briefly describes other aspects of the Japanese housing finance system related to recent steps toward financial liberalization.

3.2 Overview of the Housing Finance Market and Systems in Japan

3.2.1 The Housing Finance Market

The structure of the mortgage market in Japan is shown in figure 3.1. The state-run JHLC is the lender of last resort. Recently, there have been considerable efforts to develop specialized private-sector mortgage-lending entities. Mortgage companies and banks are becoming increasingly active in the housing finance market, although their presence is still small relative to their counterparts in the United States and the United Kingdom.

The Japan Housing Loan Corporation

The JHLC was established in 1950 as a special public corporation that provides long-term capital at a low rate of interest for the construction and purchase of housing. The JHLC obtains its funds from the postal savings system, not directly from public revenues.

The flow of loans by JHLC is indicated in figure 3.2. The JHLC draws funds from the Fiscal Investments and Loans budget. The amount of money to be loaned and the number of houses to be built with these loans each year are determined by the budget for the Fiscal Investments and Loans program. This program draws funds from the postal savings system through the Trust Fund Bureau, from postal life insurance and postal annuities, and from bonds offered for public subscription by government agencies. Its budget is submitted to the

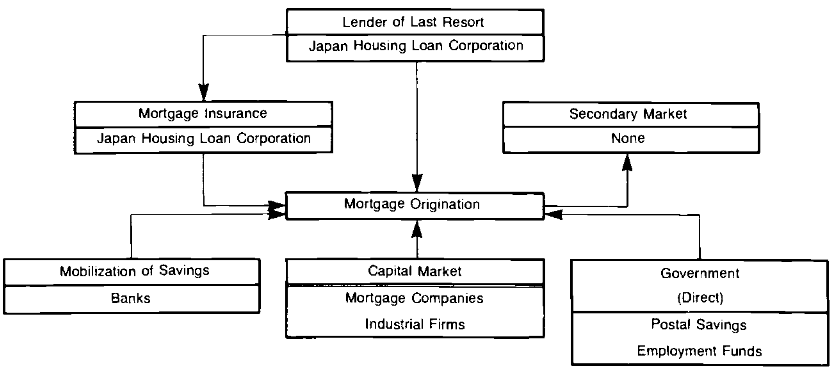

Fig. 3.1 Structure of the mortgage market in Japan
Source: McGuire 1981, fig. 13-1.

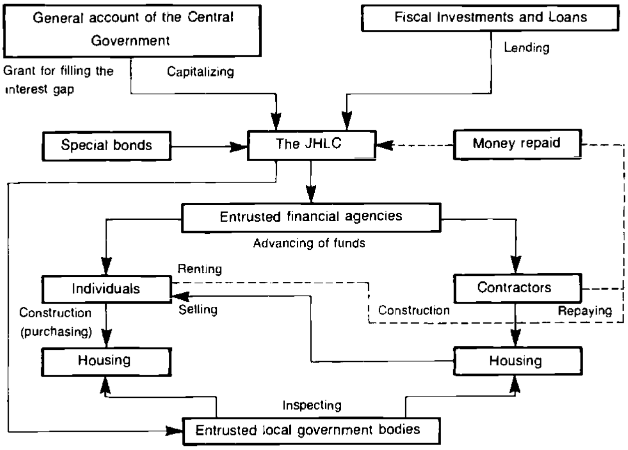

Fig. 3.2 The flow of loans by the JHLC
Source: Ministry of Construction, 1987, fig. 60.

Diet each year during deliberations on the overall budget bill. The JHLC makes loans at a lower rate of interest (currently about 5.4 percent) than the rate of interest on the funds drawn from the Fiscal Investments and Loans program (currently about 6.7 percent) and receives a government grant covering the interest-rate differential. In 1989, about 14.5 percent of the total budget for the Fiscal Investments and Loans program was allocated for housing construction through the JHLC. It is important to emphasize that capital for housing-purchase loans in Japan is primarily mobilized from the deposit-taking system (i.e., through short-term savings) by both the JHLC and commercial banks.

Table 3.1 shows the distribution of JHLC loans in 1989. Loans are made to private individuals who intend to acquire their own houses, private individuals and local housing-supply corporations that intend to build rental housing, local housing-supply corporations and enterprises such as commercial developers that intend to build houses for sale, and enterprises that intend to undertake urban renewal projects. On the demand side in 1989, about 78.3 percent of the JHLC loans were allocated to construction and purchase of new owner-occupied housing, and only 6.2 percent were allocated to the purchase of secondhand owner-occupied housing. Generally, JHLC lending favors new housing, with much stricter limits and lending criteria for used housing, thus acting to depress resale value of homes and discouraging the development of a mortgage market in used homes. As for supply-side policy, only 4.7 percent of the JHLC loans were allocated to construct rental housing.

Other Institutions

The other large lenders are the commercial banks and housing loan companies that are subsidiaries of commercial banks. These banks began providing

Table 3.1 **Japan Housing Loan Corporation Loans, 1989**

Type of Loan	Amount Lent (billions of yen)	Percentage
Construction of owner-occupied housing	2,555	44.2
Purchase of owner-occupied housing	1,969	34.1
Purchase of secondhand owner-occupied housing	359	6.2
Rented housing	274	4.7
Development of housing sites	129	2.2
Rehabilitation of owner-occupied housing	277	4.8
Urban renewal projects	69	1.2
Multistoried dwellings	16	0.3
Other	132	2.3
Total	5,780	100.0

Source: Housing Loan Corporation 1990.

housing loans in 1961. Figure 3.3 shows the proportion of outstanding loans of commercial banks to construction and real estate industries and the share of funds allocated to housing. Both proportions have shown a marked increase in the 1980s as a result of the real estate boom. It is important to bear in mind that there are no major private-sector institutions specializing in housing finance in Japan, as exist in the United States and the United Kingdom.

In addition, there are several other public housing finance institutions in Japan, but their role in housing finance is small compared to the JHLC.

Mortgage Market

The striking characteristic of Japanese housing finance in general is the virtual absence of a mortgage market for used houses. Unlike in the United States, mortgages are not bought and sold as commodities. This absence of trade in mortgages acts as an impediment to the flow of capital into housing finance markets. Among the factors that explain why an active mortgage market has not yet emerged in Japan, it appears that the government's longstanding informal policy of maintaining low interest rates on housing loans has rendered mortgages unattractive investment instruments. The absence of private-sector institutions specializing in mortgages has also hindered the development of a mortgage market. In addition, there is a limited legal foundation for a mortgage market, since gaining clear title to real estate pledged as collateral on a loan is difficult.

Private versus Public Loans

The housing finance systems in Japan comprise an unusual combination of private- and public-sector loans. Figure 3.4 indicates the origin of housing loans since 1965. Before 1965, almost all of the housing loans were public, because private financial institutions had to allocate their funds to the huge demand for business investment (for industrial capital formation). During the

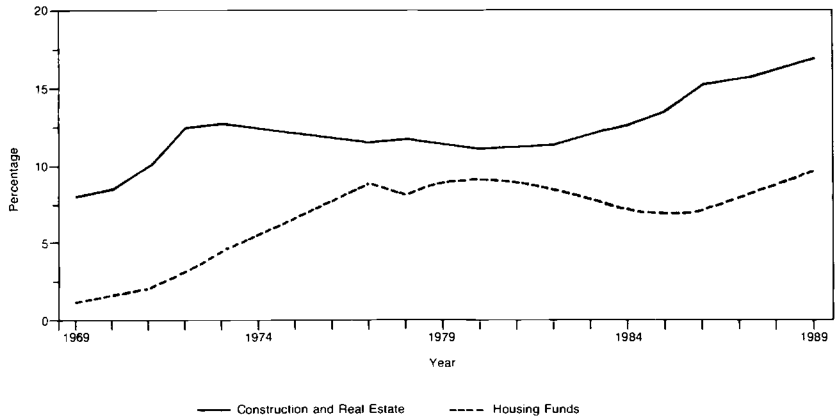

Fig. 3.3 Commercial loans oustanding by industry
Source: Economic Statistics Monthly (Bank of Japan), various issues.

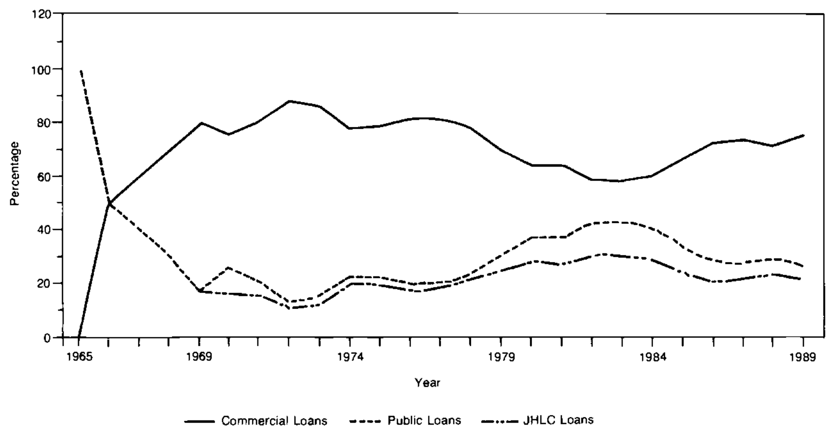

Fig. 3.4 Source of housing loans
Source: Housing Loan Corporation 1990.

1980s, commercial lending markedly increased, while JHLC loans fluctuated between 20 and 30 percent of total housing loans. The percentage of housing loans outstanding since 1965 is indicated in figure 3.5. The housing finance market in Japan has expanded greatly since 1965, marked by a decreasing reliance on public loans and a rapid increase in private loans. After 1975, the share of private loans decreased because their rate of growth declined. In the 1980s, however, there was a marked increase in property-related lending by commercial banks. In 1990, the share of bank loans outstanding for households rose to 16 percent of the total, for the first time exceeding the share for manufacturing

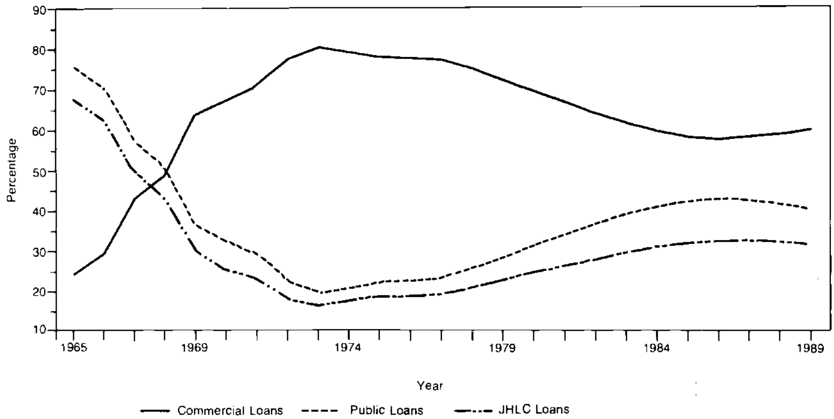

Fig. 3.5 Housing loans outstanding
Source: Housing Loan Corporation 1990.

firms, while the share for property companies rose from 4 percent in 1970 to 12 percent in 1990.[1] The surge of household and private-sector money into property sparked a self-perpetuating land price spiral, fed by continued hectic commercial lending and the certainty that prices would continue soaring. Generally, mortgage loans are available only for new construction, but speculators, construction companies, developers, and real estate offices all have access to other funds for property-related investments. In the mid-1980s, banks actively sought to boost property-related lending. They mistakenly credited the myth that land prices always go up and thus ran little risk if loans were secured by property. The banks had traditionally lent heavily to manufacturing firms, but this source of business dried up in the mid-1980s as manufacturers increasingly turned to equity markets to raise money. Given the unprecedented expansion of Japan's money supply in the 1980s, a result of the yen's rapid appreciation and low interest rates, ample funds were available for speculators and others with minimal monitoring. This explains the current severe problems of housing loan corporations and banks; with the bursting of the bubble, the rate of nonperforming loans has risen dramatically.

Interest Rates for Housing Loans

Figure 3.6 shows interest rates for housing loans in Japan. Government policy has deliberately kept mortgage rates low, although they have risen since 1989 in line with government policies aimed at curbing real estate speculation in the overheated property market. In the Japanese financial system, key interest rates are established by the government through the Bank of Japan. Exact levels of key interest rates and deposit-rate ceilings are determined by both

1. "Survey: The Japanese Economy," *Economist,* March 6, 1993, 6.

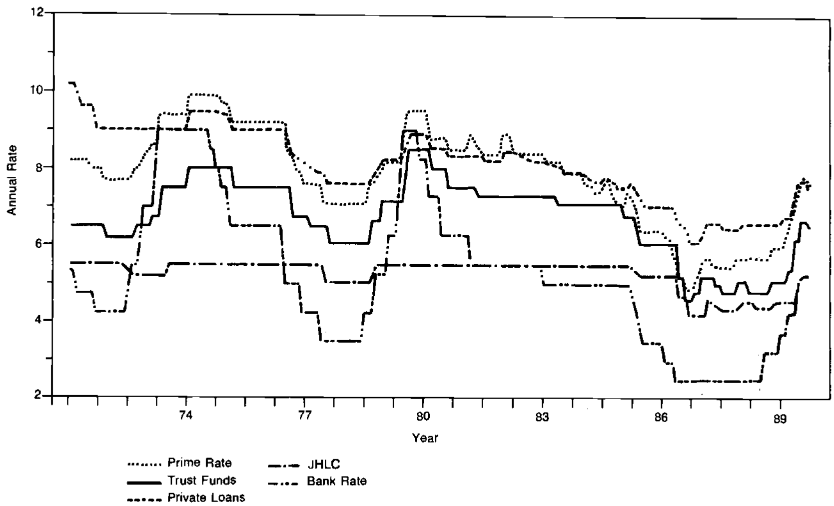

Fig. 3.6 Interest rates of housing loans
Source: Housing Industry Newspaper Company, various issues.

negotiation and discussion among other monetary authorities. Once the key interest rates are determined, all other rates find their levels in the market. The rate of interest charged by the JHLC is modest and below market interest rates.

Until recently, private loans for housing have been provided largely on a fixed-interest basis.[2] The proportion of private housing loans provided on a variable-interest basis has risen sharply since they were introduced in 1983, by 1989 constituting about two-thirds of private housing loans (46.5 percent in 1987, 57.2 in 1988, and 66.5 in 1989). The introduction of floating rates is part of the process of financial liberalization, as banks scramble to adjust to interest-rate deregulation; as long as the government kept interest rates low, banks could extend fixed-interest loans at little risk; now they must move to reduce their vulnerability to interest-rate increases.[3]

3.2.2 Homeowner Financing

Commercial Housing Loans

The standard conditions for private housing loans are

1. Borrowers: Twenty to sixty years old (less than seventy when repayment is completed).

2. Using time-series data, Seko (1991) has shown that, under inflation, credit constraints in Japan exist where standard fixed-payment mortgage is dominant.

3. See Arima (1986), Association for Promoting Housing Finance (1986), Boleat (1985), Horioka (1988), Ichimura (1981), Izu (1988), Mills and Ohta (1976), and Muramoto (1986) for more details about Japanese housing markets and housing finance systems.

2. Size of loan: Usually between 70 and 80 percent of the price of the house, and less than 30 million yen; a maximum of three to four times annual income. There is no legal down-payment requirement, but the usual self-financing ratio is more than 30 percent.

3. Interest rate: 6.78 percent fixed-rate, 6.00 percent variable-rate.

4. Terms of repayment: A maximum of twenty-five years for a fixed-rate housing loan and a maximum of thirty years for a variable-rate housing loan in the case of city banks.

5. Method of repayment: Usually the standard mortgage system (i.e., monthly payments are constant in nominal terms).

6. Collateral: The first rights to the mortgaged property.

7. Guarantee: By contracted guarantee company or security for housing loans.

8. Life insurance: Contracted group life insurance.

JHLC Loans

The JHLC puts limits on the amount and cost of its loans. Conditions on loans by the JHLC for new individual home purchasers as of 1992 are as follows (Ministry of Construction, Housing Bureau 1985, 1989).

1. Size of loan: The size of a loan is specified according to the floor space of a house, the region in which the house is built, the structure of the house, and so forth. For instance, an individual can normally borrow a total of 14.0 million yen, consisting of 7.3 million yen for the house and 6.7 million yen for the land, if the borrower acquires a wooden house in a large metropolitan region. This amount of money corresponds to 30–40 percent of the cost of the house and the lot, and the borrower must add funds on hand, loans from a private financial agency, and so forth, to this amount to purchase the house. If a borrower wants to borrow money just to build a house, the land area owned by the borrower must exceed one hundred square meters. It should be pointed out that lending criteria favor borrowers who already own land. The JHLC has special provisions for providing additional loans to households with aged or handicapped people, in cases where two households live together, and for energy-efficient houses.

2. Interest rates: The interest rate is classified for ten years after a loan is made by the size of a house, except for a person with an income over 10 million yen. The initial rate for the first ten years is 4.9 percent for 70–125 square meters, 5.25 percent for 125–55 square meters, and 5.6 percent for 155–220 square meters. From the eleventh year on, the rate of interest is fixed at 5.6 percent. The rate of interest applied to a person who earns an income of more than 10 million yen in the preceding year is fixed at 5.6 percent from the outset.

3. Terms of repayment: A loan must be repaid within twenty-five years for wooden housing of noncombustible construction, within thirty years for housing of quasi-fire-resistant construction, and within thirty-five years for housing of fire-resistant construction.

Table 3.2 Source of Funding for Purchase of Custom-made Housing (percentage of contribution)

Source of funds	1984	1985	1986	1987	1988	1989
Proportion of self-financing						
Personal savings	29.2	29.1	29.2	29.9	26.7	26.0
Selling real estate	6.3	7.1	9.8	10.9	11.0	14.7
Inheritance and gifts	0.5	2.0	2.1	2.0	1.9	1.6
Other	2.5	1.6	4.0	2.7	2.5	1.9
Total	38.6	39.8	45.1	45.6	42.2	44.2
Loans						
Relatives	1.7	1.6	1.7	1.2	1.0	0.9
Government-related	39.6	38.0	34.5	35.3	42.6	39.3
Employer	9.2	7.7	8.8	5.9	4.4	3.6
Private-Sector financial institutions	10.6	12.3	9.8	11.5	9.5	11.8
Other	0.2	0.6	0.0	0.5	0.3	0.3
Total	61.4	60.2	54.9	54.4	57.8	55.8
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Construction 1989.

4. Method of repayment: A loan must be repaid on a principal-and-interest-equality basis: the step repayment system, which reduces monthly payments for the first five years, is also available.

5. Housing construction standards: Housing built with loans from the JHLC must not only conform to the Building Standard Law and other laws and ordinances, but also meet the housing construction standards established by the JHLC. The JHLC enforces these requirements through design inspections and field inspections made by local government bodies, thereby ensuring good-quality housing.[4]

Source of Funds

Table 3.2 outlines the wide variety of financing strategies that Japanese owners use when purchasing a dwelling.[5] The proportion of self-financing is about 40 percent, of which about 25–30 percent is from personal savings. This ratio may be biased downward: if a new owner borrows money from parents without collateral and applies it toward the down payment to the developer, the amount of money would still be counted as loans instead of down payment (Hayashi, Ito, and Slemrod 1988). About 40 percent of the purchase price is financed by public loans. One of the anomalies of the Japanese housing finance system is the relatively small role of commercial lending, about 12 percent of the total. Another anomaly is the relatively large role of personal savings; home buyers raise about one-quarter of the purchase price from their own savings.

4. See Okazaki and Urabe (1986) for more details.

5. Figure 3.4 indicates the origin of housing loans for all kinds of housing; table 3.2 indicates detached houses only.

3.3 JHLC Home Financing Policy

3.3.1 JHLC Housing Construction Policy

In Japan, the Housing Construction Program Law was enacted in 1966 to promote further housing construction through the united efforts of the central government, local government bodies, and the public. The law prescribes that the minister of construction submit a draft of a five-year plan for housing construction by considering the Housing and Housing Land Council's opinion. The final draft is decided upon by the Cabinet.

In each five-year plan, the government must decide the specific goals for housing conditions and set the target of the number of units to be built by both the private and public sectors. Local government bodies, the JHLC, and the Housing and Urban Development Corporation (HUDC) are given targets for the number of units to be built within the planned period.[6] The minister of construction divides the nation into ten regions and decides on a five-year program for local housing construction in each region. Each prefecture decides on a five-year program for housing construction based on the regional program.

Five five-year programs have been enacted in conformity with the Housing Construction Program Law.

In the first program (1966–70), the planned share of JHLC-funded housing was 44.4 percent, and its rate of achievement was 100.7 percent. In the second program (1971–75), the planned share was 39.7 percent, and its achievement ratio was 121.5 percent. In the third program (1976–80), the planned share was 57.4 percent, and its actual achievement ratio was 134.1 percent. In the fourth program (1981–85), the planned share was 65.5 percent, and its actual achievement ratio was 111.7 percent. In the fifth program (1986–90), the planned share was 71.4 percent, and its actual achievement ratio was 110.3 percent.

Each successive plan raised the JHLC target level, and in each period the JHLC exceeded this target, indicating that its lending program has been successful and popular. Clearly the JHLC has filled a need for subsidized housing loans, but past successes notwithstanding, the present JHLC home financing policy has problems both in terms of efficiency and equity.[7]

3.3.2 Efficiency

At present, the JHLC determines the amount of subsidized loans based on floor space. Thus, lending levels are solely based on the quantity of housing.

6. The HUDC was founded in 1981 by the government for the purpose of furthering the supply of housing and housing land of good quality to middle-class workers in large metropolitan regions, encouraging urban redevelopment, and furthering the development of urban parks in order to enhance the living environment. HUDC public housing is available on a lottery basis, regardless of income, at relatively reasonable prices.

7. See Ministry of Construction (1990) and Statistics Bureau (1983, 1988) for Japanese housing data.

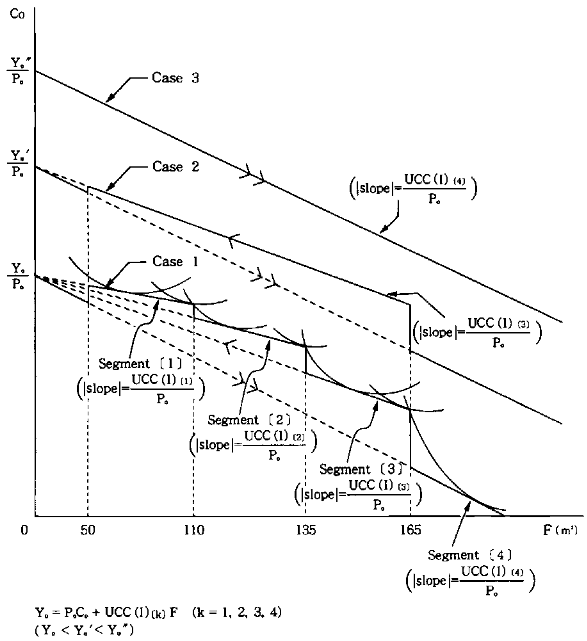

Fig. 3.7 Nonlinear budget constraints
Source: Seko 1993, fig. 1.
Notes: F = floor space; C_o = composite goods; P_o = price of C_o; y_o = nominal income; Y_o = y_o/P_o = real income; $UCC(I)_{[k]}$ = the user cost of capital of owner-occupied housing for kth segment (k = 1, 2, 3, 4); I = quality of housing.

Housing decisions of home purchasers, however, depend not only on quantity (in this case, floor space) but also on quality. This suggests that the current Japanese home financing system distorts borrowers' housing decisions.

Kato (1988) and Akiho (1984) examined the effects of the JHLC home financing policy on housing choice and the efficiency of home purchasers based on hedonic regression (Quigley 1982). They found that the JHLC lending criteria had a negligible impact on housing decisions in terms of floor space. Seko (1993) also examined the effect of the JHLC's home financing policy on housing decisions and the efficiency of home purchasers based on cross-sectional micro data, using econometric analysis. I found that the budget constraint becomes nonlinear and has jumps (as in figure 3.7), because the interest rate on JHLC loans is determined by the floor space (see section 3.2.2).[8] In response to the established criteria for access to subsidized credit, each household distorts its housing decision by overconsuming housing quantity and underconsuming housing quality under the present JHLC home financing system.

8. See Seko (1990) for nonlinear estimation of this aspect.

3.3.3 Equity

Current JHLC lending policies favor borrowers who already have land, thus conferring an advantage on those who have substantial assets. In addition, when we look at the income distribution of the JHLC borrower, the proportion of upper-income borrowers is relatively high (13.4 percent on average from 1986 to 1989).[9]

Moreover, because the JHLC makes loans at a lower interest rate than on the funds drawn from the Fiscal Investments and Loans program and receives a government grant financed by tax revenues from all Japanese taxpayers to cover the interest-rate differential, critics argue that this constitutes a redistribution of income from taxpayers to JHLC borrowers.[10] The fact that JHLC lending policies favor those who can most easily borrow from commercial banks (i.e., borrowers who own land or have a high income) suggests that the subsidies are not addressing the problems of those who most need assistance.

3.4 Some Recent Proposals for the Japanese Housing Finance System

Generally speaking, the housing finance system is characterized by borrowing short and lending long. That is, short-term savings of individuals are channeled into long term housing loans by housing finance institutions. This is the usual recipe for banking disaster because of a mismatch between assets and liabilities. Usually a housing finance institution overcomes this problem, either by raising its funds on a long-term basis, or by ensuring that the rate of interest on its long-term loans can be changed in line with the rate of interest on the short-term savings that it has attracted.

In Japan, as noted in section 3.2.1, variable-rate mortgages were introduced by commercial banks in 1983 as part of the overall process of Japanese financial liberalization, partially reducing the banks' vulnerability. However, a housing finance institution bears the risk that borrowers will prematurely redeem their loans. That is, loans are constantly being paid off as houses with mortgages are resold. Premature redemptions are also a danger if interest rates go down and borrowers seek better terms. Moreover, as variable-interest rates for mortgages in Japan are based on the long-term prime rate and not fully adjusted to market interest rates, changes in the rates are not sufficient to overcome those risks.

Under these circumstances, securitization of mortgages has been recommended recently in Japan as a complementary housing finance policy.[11] That is, mortgage loans should be converted into a security that can be actively

9. Upper-income borrowers denote households of annual income exceeding 10 million yen.
10. For example, Iwata (1977).
11. Securitization here is different from that in Noguchi's paper (ch. 1 in this volume).

traded in secondary mortgage markets, as in the United States Secondary mortgage markets are important to finance real estate transactions because they move real estate funds from investors to house buyers, and from areas of capital surplus to areas of deficit. The JHLC is well positioned to play a key role in securitizing mortgages in Japan.

In section 3.2, I noted that the JHLC obtains almost all of its funds from the Trust Fund Bureau, which mainly obtains funds from postal savings deposits. It is difficult to expand these funds under current Japanese fiscal conditions, especially given the elimination of tax incentives for postal savings and the consequent shift of savings into alternative accounts. (The rate of growth of postal savings deposits outstanding is declining. The ratio of the Fiscal Investments and Loans budget to GNP is around 8 percent.) This credit squeeze is likely to worsen in the near future due to financial liberalization and the prospects that heightened competition for deposits will raise interest rates. Given these prospects, subsidized housing loans will be difficult to sustain at current levels. These changed circumstances suggest a need to modify the role of the JHLC consistent with fiscal constraints and the evident need to develop a mortgage market that can more effectively channel funds to borrowers while covering associated risks.

In section 3.3, I noted how the present JHLC home-financing policy introduces inefficiency and inequity. It is possible to reform the state-run JHLC, transforming its role as a direct mortgage lender. It would be possible to expand commercial loans and rely on the JHLC to enhance the flow of funds from capital markets to the housing market via the purchase of mortgages and the sale of guaranteed mortgage-backed securities like the Government National Mortgage Association (GNMA), the Federal Home Loan Mortgage Corporation (FHLMC), and the Federal National Mortgage Association (FNMA) in the United States. Alternatively, the JHLC could serve as a buyer of mortgages held by private financial institutions and their mortgage-backed securities. This would have the same impact as if the JHLC were financing housing loans at private loan rates through private financial institutions.

It is also possible to securitize mortgages held by the JHLC. However, under present circumstances wherein interest rates of JHLC loans are artificially low due to subsidies, these securities may not be attractive to investors because of the increase in the danger of premature redemptions.

Although the JHLC can play a positive role in the process of securitization, this may entail some negative consequences. There are potential risks and social costs of having a large central institution insuring securitized mortgages as practiced in the United States. The JHLC's lack of experience and expertise is a serious drawback and could swell the costs to taxpayers. The imbalance in the rewards and costs of risk taking in financial markets also suggests that the JHLC should weigh carefully its potential impact on private institutions and in terms of public trust. Alternatively, private institutions could play a leading role in mortgage securitization. However, there are concerns that those most in need may be bypassed by market forces. In addition, funding constraints may limit the viability of such an approach. Initial forays into commercial property mortgage securitization in Japan have not been very successful, because the returns have been low. Raising returns to spark private-sector interest would have an adverse impact on those seeking mortgages (or paying rents), exacerbating credit constraints and inequities.[12]

3.5 Conclusion

Financial liberalization in Japan is encouraging the introduction and proliferation of more sophisticated financial instruments and a process of market deepening. The recent "problem loan" crisis that has devastated housing loan companies and generated concerns about commercial banks is a good reminder about the need for building a stable, efficient, and diversified mortgage market in line with financial liberalization. The relatively undeveloped nature of the Japanese housing finance system is evident in the absence of both a mortgage market for used houses and private-sector institutions specializing in housing finance. The current woes in the property sector suggest the need for some dramatic changes encompassing institutional arrangements and policy prescriptions.

Currently, the commercial housing loan market is stagnant even though interest rates are very low. The recession and administrative guidelines issued by the Ministry of Finance have served to dampen property-related lending. This is seen as a necessary corrective to the excesses of the so-called bubble economy and a means to bring about an orderly decline in property prices. Declining land prices would certainly lessen liquidity constraints on house-purchasing behavior. However, uncertainties about the market clearing level of property prices have dampened buying and selling activity. In this regard, the development of a securitized mortgage market could have desirable consequences in terms of providing accurate market information, hedging risks, and attracting capital to a moribund market and in that way providing some support for sliding real estate prices. However, the need for accurate price assessments would require individuals and companies to admit substantial losses on property acquired during the peak of the bubble between 1987 and 1989. This would also carry implications for loans secured by inflated property assets.

The recognized need to revitalize the troubled property sector has created a receptiveness to innovation and reform. The JHLC and commercial lenders have a vested interest in a revitalized property sector and could collaborate to draw up measures facilitating the emergence of a securitized mortgage market. This may entail a modified role for the JHLC in line with changing market needs. The government may also want to consider mortgage tax credits to

12. Kamoike (1988) and Miyao (1989) also mentioned recent proposals in Japan. See Altman and McKinney (1986) and Light and White (1979) for the American housing finance system.

lessen liquidity constraints. The introduction of a reverse annuity mortgage to convert housing stock into flow is another alternative, as Japanese society enters a period of rapid aging.[13]

The source of funding for housing in Japan remains skewed toward personal savings, while commercial lending remains a relatively untapped source at about 12 percent of the purchase price. Given the high cost of housing in Japan, marked by a rapid price increase in the 1980s, it is increasingly difficult for households to mobilize sufficient savings to make down payments that average close to 40 percent. Such levels are unheard of in other industrialized nations, where there is a much greater reliance on commercial housing loans. Introducing a mortgage tax credit as in the United States would significantly lower the real cost of commercial lending.

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