

Japan International Cooperation Agency (JICA)

People's Bank of China

Ministry of Construction of People's Republic of China

**The Study
on
Reforms of Housing Finance Systems
in
China**

**Final Report
[Summary]**

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March, 2002

Nomura Research Institute, Ltd.

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Referential Exchange Rate (February 28, 2002)

One US dollar = 133.90 ¥

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Sources : Bank of Japan (for USD--Yen conversion)

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Preface

In response to a request from the Government of People's Republic of China, the Government of Japan decided to conduct a "Study on Reforms of Housing Finance Systems in People's Republic of China", and entrusted the study to the Japan International Cooperation Agency.

JICA selected and dispatched a study team headed by Mr. Keiichi KUSANO of the Nomura Research Institute, Ltd., to China from March 2000 to March 2002.

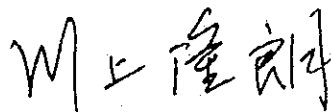
In addition, JICA set up an Advisory Committee headed by Prof. Tsutomu MURAMOTO, Dean of Graduate School of Economics, Seijo University, which examined the Study from specialists and technical points of view.

The team held discussions with the officials concerned of the Government of China and conducted field surveys at the study area. Upon returning to Japan, the team conducted further studies and prepared this final report.

I hope that this report will contribute to promoting reforms of housing finance system and development of housing market in China, and to the enhancement of friendly relationship between our two countries.

Finally, I wish to express my sincere appreciation to the officials concerned of the Government of China for their close cooperation extended to the study.

March 2002



Takao Kawakami

President

Japan International Cooperation Agency

March 2002

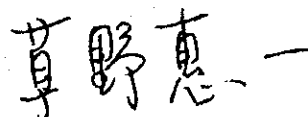
Mr. Takao Kawakami
President,
Japan International Cooperation Agency

Note of Transfer

We, the members of the JICA Study Team, hereby submit the final report on, "The Findings of the Study on Reforms of Housing Finance Systems in China." Studies commenced in March 2000, and were completed in March 2002.

The report sets forth the proposed measures for mid-term and long-term reforms to the housing finance systems of China. Concretely, we proposed three basic measures, namely: (1) The reform of the Housing Provident Fund as the housing finance system, (2) Correspondence to increase in housing finance of the Commercial Bank; and (3) Establishment of the Mortgage/Guarantee System. Maintenance of housing-related information systems, Cultivation of Human Resources concerned with housing finance, and establishment of Qualification System and raising/activation of the rental house market were likewise proposed as relevant measures. All measures were based on the estimation and analysis of housing demand. We are convinced that their implementation will make a great contribution to promoting reforms to the housing finance systems and enhance the development of the housing market in China.

We are deeply indebted to the personnel at JICA, the Ministry of Foreign Affairs, the Ministry of Land, Infrastructure and Transport in Japan, and all lecturers for the technology transfer seminars, including the ones from the Government Housing Loan Corporation, for their invaluable guidance and support in the execution of the study. In China, we wish to thank the concerned personnel at the People's Bank of China and the Ministry of Construction of People's Republic of China for their kind cooperation and assistance with our activities.



Mr. Keiichi Kusano

Leader

JICA Team for the Study on Reforms of
Housing Finance Systems in China

Executive Summary

1. Chinese Housing Finance System Reform: Focal Points

1.1. Understanding Growth of Housing Market and Demand for Housing

China is experiencing the first housing consumption boom in its history. Chinese housing market has shifted to an era where it is now dominated by the construction and sales of “commercial housing” by real estate companies. The total floor space of houses sold in China has increased by six times within the past ten years. Majority of commercial housing was purchased by individual homebuyers. This indicates that “economization of housing market” is certainly taking place in China.

Formation and development of “filtering system” (“advancement of living standard through filtering”) are very likely to occur in China. Therefore, the policy-related tasks for the Chinese government with regard to housing should include: a) developing a framework to increase the demand for housing by mid-level income earners who are cautious about purchasing houses; and b) encourage a vitalization of the various housing markets, (including markets for existing housing and rental housing,) in order to promote filtering.

In order to respond to demand for housing/housing fund, which is expected to grow in both for mid-and-long term period, public housing finance system has to be improved by utilizing existing Housing Provident Fund System (HPF System). Low-cost and high quality housing fund should be provided. Private financial institutions should develop commercial finance system equipped with diverse and attractive financial products.

1.2. Housing Finance: Its Role in Promotion of Housing and Basic Framework

Key objectives of housing finance system reform can be summarized as following: a) to help people form assets; b) motivate people to purchase their own houses and; c) stimulate growth of the economy.

Housing loan programs with long-term, fixed, low interest rate should be promoted as a support system for asset formation. As a result, various new measures have to be established in Chinese housing finance system, such as the diversification of risks, advanced analytical technique for interest rate risks, and financing methodologies. Also, administration procedures have to be standardized in order to increase the efficiency in processing documents and forms.

Private housing finance systems alone, are not sufficient to boost the people’s

demand for housing, since these systems tend to be influenced easily by the economy. Therefore, various measures such as preferential tax treatment, interest subsidy, housing allowance should be provided as part of public housing finance systems. It is important for people to form assets and gradually increase their housing purchasing abilities. China needs to establish more comprehensive and stable housing market structures, including secondary market (existing home market) and rental housing market.

Housing finance system is expected to vitalize the economy by an enlarged circulation of houses. Boosted economy will result in even greater circulation of houses. Therefore, housing policies designed to increase the number of people with housing purchasing abilities, should be included in housing financing system.

1.3. Financing for Housing Policies: Basic Directions

Financing systems for housing policies with various fundraising/operation frameworks, have to play a central role as support systems for the accurate execution of housing policies in all parts of China.

Measures by the supply side, such as a provision for housing by government organizations, are significant. In addition, demand side should also promote the establishment of housing policies and relevant legal system. For example, purchasing appropriate houses and promoting moving-in by diverse levels of private corporations can be useful. Through the provision of various incentives to each player in the housing market, the government (administration) will achieve policy objectives utilizing housing market, as well as intervene in, guide, and supplement housing market.

For the continuous improvement of housing stock through filtering, vitalization of mobile housing market (for not only new houses, but existing houses and rental houses also) is imperative. In addition, financing framework for housing policies that support acquisition of politically-guided housing, (which is designed to meet diverse demands,) should be developed.

In order to promote the measures from demand-side, various system infrastructures which will help individuals and corporations navigate housing market, should be developed. This includes, establishing housing appraisal systems, display systems, and guarantee systems, developing housing quality standards, as well as expanding mortgage, guarantee and insurance systems.

China needs to accurately forecast demand for housing and housing fund, considering not only objectives in social and economic development, but people's needs toward housing, and changing economic structure also. In addition, a structure to

incorporate these issues in housing plans in a flexible and prompt manner has to be constructed.

In Japan and major western countries, there are clearly defined roles for the public and the private sectors, in saving programs/organization and housing finance system, in order to secure stable funds and to allocate sufficient funds. This is supplemented by the government's finance and tax subsidy device. In China, too, financing systems for housing policies, which will support housing policies designed to solve various national issues, must be developed immediately.

2. Housing Provident Fund Reform: Basic Directions and Strategies

2.1. Housing Provident Fund System and its Challenges

A mandatory housing saving program, which is directly linked to housing loans, such as the Housing Provident Fund System (HPF System) in China, is unique and does not exist in any other countries including Japan and European countries. Chinese government positions the HPF System as a core of allocation policies of monetized housing. Yet, there are numerous issues in the current HPF System, mainly in its operation.

2.2. Housing Provident Fund System Reform: Basic Direction

The HPF System will be positioned as a core of Chinese public housing finance system. Drastic changes will be made to the organization, its structure and operation, since main objective of the HPF System is to lead China's financing system for housing policies. In addition, various functions in the HPF System will be strengthened.

2.3. Basic Directions for the Reform

The organization structure of the HPF System should be restructured based on the following nine points. While points (1) to (4) relate to short-term and urgent issues, points (5) to (9) concern mid-term and policy-related issues.

- (1) Integration of small HPFMCs.
- (2) Development and reinforcement of training programs.
- (3) Standardization of HPFMCs' administration procedures, and development of comprehensive and integrated computerized management systems.

- (4) Promotion of ALM in HPFMCs and reinforcement of the supervising/auditing functions by the central government.
- (5) Accommodation of funds in larger area, and fund linkage with financial market.
- (6) Independent operation of HPFMCs, establishing division between administration and finance, and reorganization of administration work.
- (7) Increased control of housing policy by the central government.
- (8) Increased housing policy funds and political loans by the central government.
- (9) Aligning HPFMCs with local governments' housing plans, and providing finance/tax assistance to local governments.

2.4. Directions for Organizational Reform: Phased Organizational Reform

The main objectives of organizational reform proposed in this study are to develop a new organizational structure which will oversee the entire China, and solve issues which cannot be addressed by individual HPFMC. Reform should be executed gradually by following phases described below.

Phase 1: Transition to Administrative Function Model

The goal of nationwide integration and reorganization of HPFMCs, based on the viewpoints (1) to (4) is to address issues related to organization management, which is one of the most urgent issues.

A new organization structure of the HPF System will consist of the following three layers. The Central Housing Provident Fund Management Center will be established at the national level. The Provincial Housing Provident Fund Management Center will be developed regional level. The Urban Housing Provident Management Centers" will be built at the district level. This three-layer structure is the same as in the current HPF System. However, the new system is designed to solve managerial and financial issues, that the current HPFMCs face at the national level, in extensive area.

- Establishment of provident fund management mechanisms (Central and Provincial Housing Provident Fund Management Centers).
- Integration and reorganization of existing HPFMCs to Urban Housing Provident Management Centers.
- Development of monitoring systems for HPFMCs.
- Development of training systems and certification systems for housing finance professionals.

- Establishment of information system to improve the efficiency of administration work and customer management.

Phase Two: Transition to Systemized Finance Model

The main objective of a new organization structure, based on points (5) and (6) is to reinforce financial functions (mainly fundraising), including modification of operations at HPFMCs.

In order to shift the organizational structure of the HPF System to a three-layer integrated financial system, following new organizations will be created as non-profit organizations independent from administration divisions. "Central Housing Finance Mechanism (CHFM)" will be established at the central (national) level, and "Regional Housing Finance Mechanism (RHFM)" will be built at the regional level.

The CHFM will keep and operate funds as a central finance institution. CHFM should possess diverse functions, such as issuing debenture when it is required. Also, under the new organizational structure, RHFM should exert influence in the regional financial market, through the accommodation of funds. At the district level, HPFMCs should function as a community-based financial institution designed to promote mutual aid, while providing support to the HPF participants.

- Reorganization of HPFMCs to housing system finance mechanism.
- Accommodation of loan funds by the Regional Housing Finance Mechanism.
- Development of fundraising measures unique to the Central Housing Finance Mechanism, such as the issuance of debentures.
- Expansion of political loans, and provision of political loans to housing suppliers, including suppliers of houses for sale and rental.

Phase Three: Transition to Specialized Financial Institution Model

The main objective of a new organization structure, based on points (7) and (9) above, is to expand Chinese financing systems for housing policies, to achieve "specialized financial institution" reform.

Drastic changes will be made to the current HPF System. "Central Housing Bank of China (CHBC)" (tentative name) will be established as a specialized financial institution, responsible for financing for housing policies.

CHBC will directly raise its own funds by collecting housing savings and issuing debentures. In addition, the HPF funds and postal savings that are currently managed by the government will be pooled in the fund operation division of Central Housing Bank of China. (It must be beneficial to investigate whether a special account should be established in the

Ministry of Construction or not.) The bank will use these funds as financial resources to execute housing finance in accordance with the state's housing policies.

- Establishment of the CHBC: transition to specialized housing policy financial institution.
- Formation of Central Housing Committee, which will provide consultations to the CHBC management.
- Introduction of voluntary housing saving program.
- Introduction of housing-related taxes (local tax, housing policy foundation).
- Reinforcement of the housing political loan function.
- Introduction of housing policy information systems to provide information on prospect of housing demand and supply, etc.

3. Private Housing Finance System Reform: Directions

3.1. Expansion of Housing Finance and Challenges for Public Commercial Finance Institutions

Housing loans by the state commercial banks have shown a significant increase since 1998. Particularly, housing loans for individual borrowers have risen sharply. Housing loans by the financial institutions in the private sector are expected to play a significant role. In addition, the ratio of housing-related loans in commercial banks' total amount of loans has been rapidly expanding. In the future the ratio could be as high as 15%.

Unlike corporate loans, housing-related loans and housing loans for individual borrowers present numerous risk management issues, such as gathering personal credit information, securing deed of warranty, appraising mortgage, handling changes in mortgage prices, assessing personal credit, and investigating deed of warranty. In addition, the efficiency of administration work could be a problem in personal housing loans because the number of loans and the volume of administration work are large, although the amount of each loan is small.

The larger the Chinese housing market grows, the more significant solutions for these problems become. One of the issues relate to risk management and the protection of account receivables. Another issue concerns banks' cost management and profitability.

3.2. Private Housing Finance System Reform: Basis Directions

In western countries, the competition in banking has become increasingly fierce.

The banks' deposit-loan spread has been decreasing because corporate fund raising methods are more diversified. Individuals nowadays are more selective about interest rates for personal savings. In China, too, credit risk management and cost management have become increasingly significant for banks.

Breach rate of personal housing loans is currently quite low in China and it remains as a small issue. However, if housing loan-related business expands, accident rate is expected to increase also. Therefore, guarantee/insurance systems such as institutional guarantee systems need to be established immediately.

Japanese commercial banks have longer history in the area of loan screening, compared to their Chinese counterpart. Chinese commercial banks can learn from Japanese practices, (such as internal control, double check, asset appraisal, confirmation of deed of warranty).

Chinese banks' finances could be negatively impacted unless cost management in housing loans is pursued, such as standardization of administration documents, and development of information system. With China's membership to WTO, foreign financial institutions are likewise expected to enter Chinese market. Therefore, Chinese banks must implement cost management structures that can compete globally.

Breach rate of personal housing loans is currently quite low in China. However, China's new challenge is to balance a relationship between risk management and the improvement of service through product diversification. There are a number of aspects in Japanese commercial banks' housing loans that Chinese counterparts can learn from. In particular, studying reinforcement measures for personal housing loan management and customer services by Japanese banks can be very useful.

3.3. Establishing Credit Risk Management Systems: Learning from Japanese Examples

One of the most significant issues for Chinese banks is risk management. Particularly, the development of credit risk management systems is particularly important, since credit risk is supposed to occupy 60% of all types of risk that exist in banks.

Various risk management measures in Japanese financial institutions can be informative for Chinese banks. These include: a) development of credit rating systems; b) establishment of risk management organizations; c) quantification of credit risk; d) portfolio management; e) asset allocation systems (allocation of risk capital, management by risk management) and; f) creating regulations and manuals.

4. Establishing Mortgage/Guarantee Systems: Basic Directions

4.1. Necessity for Establishing Mortgage/Guarantee Systems

In order to maximize purchasing abilities of the people who have a desire to buy a house, (and to minimize risk of individuals and financial institutions,) guarantee systems designed to meet specific needs of each loan user and matching guarantee institutions, have to be established. In addition, developing appropriate risk management structures/methods is also imperative in housing finance system.

In China, guarantee systems for housing loans are still underdeveloped. Therefore, new mortgage/guarantee systems should be developed to achieve following objectives.

- (1) Supplement credit capability of housing loan users (developing credit systems.)
- (2) Support lower-mid income earners who request for housing loans (improving housing finance system.)
- (3) Assist housing loan users who have difficulty in repaying loans (securing and stabilizing individuals' lives.)

4.2. Establishing Mortgage/Guarantee Systems: Directions

One of the major directions in designing mortgage/guarantee systems is to implement a framework to supplement credit by guarantee institutions, and not by individual guarantors. In addition, guarantee supplement business is linked closely to loan business. Therefore, these two must be coordinated as one. Guarantee business should be part of financial business, and mortgage guarantee organizations should have finance functions as well.

Guarantee systems by both public and private sectors should be established simultaneously. Roles for the public sector and the private sector should be clearly defined.

Guarantee institutions should be established throughout China. The size of each guarantee institution should match each region's specific conditions. This will maximize economies of scale and minimize total risk. At the same time, it will enable centralized management/supervision by relevant government institutions

Risk management is a core of guarantee business. For reliable risk diversification and to secure debenture, implementation of reinsurance system, as well as requesting mortgage and guarantee should also be investigated.

4.3. Strategies for Establishing Mortgage/Guarantee Systems

(1) Establishment of Public Guarantee Institutions

Characteristics	Details
Name (tentative)	• Central Housing Guarantee Organization
Characteristics	• Public service institutions • Tax-exempt organization • Finance industry
Service lines	• Provide guarantee/insurance services for housing loans • Broker politically-guided housing
Supervisory organizations	• Supervised jointly by the Ministry of Construction, People's Bank of China and the Ministry of Finance.
Structure	• Nation-wide operation with regional emphasis • Central headquarters→Regional headquarters→Branches
Main functions	• Politically-guided loans • Political coordination for guarantee for general loans • Coordinate mortgage guarantee systems/policies (quality assessment, property appraisal, quality guarantee, completion guarantee, etc.) • Coordinate with relevant organizations, such as consigned financial institutions and affiliate insurance companies. • Issue debentures • Collect guarantee fees • Collect debentures (management of parties entitled to recourse)

Source : JICA Study Team

(2) Establishing Guarantee Organizations by Commercial Banks

Major objective in establishing guarantee organizations by public sector is to develop guarantee organizations affiliated with commercial banks.

Leading commercial banks in China are large and have operations throughout the nation. If guarantee organizations affiliated with these banks are established, economies of scale within the same group can be expected (as a guarantee organization as a parent bank and subsidiary). It will also be possible to build branches with different functions depending on specific conditions of each region.

It will be almost impossible for all the Chinese commercial banks to start developing affiliate guarantee organizations simultaneously. Therefore, banks with enough demands and which meet required conditions, should start first. In addition, relatively small commercial banks with limited area of operation might have difficulty in developing affiliate guarantee institutions on their own. Therefore, it might be better to launch joint-guarantee

organizations with other banks, as required.

(3) Establishing Reassurance Systems (Implementing Reinsurance Systems)

Under the socioeconomic system where there are constant structural changes in social environment, financial environment and labor market, risks exceeding the range granted in the guarantee system design (accident rate), should also be considered. Reassurance systems to hedge abnormal risks that are difficult predict should be established.

It is possible to include insurance premium for reassurance in guarantee fees paid by loan users. However, a scheme that is linked to group credit insurance, such as group life insurance or accidental insurance, will be more effective, considering actual conditions of current insurance industry in China.

Group credit life insurance systems should be developed to handle unexpected accidents, such as debtors' death or serious injuries. Also, accidental insurance systems should be established to handle the cases where loan properties are damaged by fire or natural disaster.

Insurance institutions that provide insurance services/products for reassurance purposes should have politically-guided functions. If there is excessive budget, the possibility of establishing of public insurance institutions specializing in reassurance services should be investigated. The same objectives can be achieved by launching new reassurance/reinsurance products for housing loans while utilizing insurance companies' existing infrastructure and network.

5. Building Support Infrastructure for Housing Finance System Reform: Directions

5.1. Strategies for Developing Housing-Related Information System

(1) Establishing Housing Finance Information System

For the efficient operation of the HPF System, information system linking the HPF and commercial bank on-line has to be built. Strategic development of housing finance information system, which fits each phase of the HPF System reform, is imperative. Investigating the total on-line system by the Japanese Housing Loan Corporation can be very useful.

For the development of housing loan information system, various issues such as which administrative organizations should be in charge, of developing a new system and creating concrete plans for immediate implementation, must be examined.

(2) Establishing Personal Credit Information System

Developing and utilizing personal credit information system is quite important in risk/lending management of housing loans. Shanghai Zixin Corporation is a pioneer in this field. A greater number of regional-based personal credit information corporations should be established. In addition, a large-scale credit information network between multiple regions should be launched to link and manage several personal credit information systems.

(3) Building Housing Distribution Information System

Housing distribution information system is a basic infrastructure for the vitalization of housing market. The system should have multiple functions such as: registering/posting/advertising properties, property brokerage, search engines, budget-planning system for homeseekers, and appraisal system for posted information.

Housing distribution information system will be operated via Internet or magazines. The cost will be covered by fees from construction companies, real estate companies, and loan companies including banks, for posting information or when deals are made. Its maintenance and operation should be managed continuously by private corporations.

5-2. Training Professionals and Certification Systems in Housing finance

Training specialists with professional knowledge/abilities and placing these individuals in appropriate, relevant organizations is critical, as a basis of housing finance system. Sustainable personal development can be made possible by developing the right training programs. Also, staffing can be made more successful by introducing a certification system which can systematically and accurately places certified employees in the organization.

One of the ways to make real estate transactions safer and to develop housing finance system soundly and effectively is escrow system.

In order to establish an escrow system, (which requires professional abilities and credibility of third parties,) the existing national certifications should be utilized. In addition, comprehensive housing finance-related certifications should be newly established.

Certification system for "Housing Finance Manager" that tests knowledge in loans (screening, loans, debenture management, collection), escrow (commission a reliable third party to sell/buy houses, which is subject of loans, and ensure that transaction is conducted accurately) is recommended.

There should be a linkage between training programs and certification system.

5.3. For the Vitalization of Housing Market

For the mid-and-long-term, and sustainable vitalization of housing market in China, formation of markets for existing houses and private rental houses is significant. Implementation of various measures to private sector should be examined in order to indirectly guide/stimulate market. These measures include creating, maintaining, improving high quality housing stock in rental housing market, reinforcement of filtering functions in housing market, creating environment for organizing and disclosing information on individual property, providing tax and financial incentives.

In addition, following measures should be examined also: a) establishment of information system, temporary procurement, preservation/maintenance of existing housing stock by the government; and b) re-injection of current housing stock into existing housing market or private rental housing market.

(1) Establishing Basic Housing information Registration System and Utilizing Database

It is important for "main consumers", "main suppliers (constructors)", "information/service providers" to be able to search and utilize high quality information when trading housing, conducting transactions for rental housing, or providing brokerage/information services. In order to achieve these objectives, information system on housing asset, such as exiting housing stock and newly-built commercial housing (which is rapidly increasing), should be developed and utilized. This will be executed through the establishment of "Basic Housing Information Registration System" and development and operation of relevant database.

Basic Housing Information Registration Organization will be founded to manage this database. The organization will be responsible for designing and developing a database and its operation method/standards, while assessing the public needs of main consumers and main suppliers.

(2) Establishing Housing Distribution Promotion System

The objective of housing quality examination and technical appraisal system is to: a) accurately evaluate and judge safety standards of existing and new houses and; b) provide/establish high quality basic housing information to vitalize housing market. Technical standards and matching certification system, (which consist of several levels of certifications,) should be designed and established by the central or regional government. This will enable cultivation of a large number of housing quality appraisers comparable to the volume of housing construction, sales, and distribution.

Competent employees in real estate brokerage companies are imperative for the smooth trading of existing house or transaction of rental housing, by utilizing basic housing information including housing quality examination, and technical appraisal system. These employees should have the knowledge and skills in construction technology, market value appraisal, housing finance system, IT, and contractual issues.

(3) Promoting the Distribution of Existing Stock and Utilization of SPC

“Housing rating” will be conducted based on certain appraisal standards, by understanding quality and quantity of existing housing stock by using basic housing information database, which includes housing quality examination and appraisal information. Based on the rating, various measures for the promotion of trading existing houses and distribution rental houses, or for preservation, maintenance, and redevelopment (“scrap and build”), should be examined.

Introduction of legal, tax, financial systems should be examined, to allow establishment/operation of SPCs which will buy, preserve, renew, resell or rent block(s) of housing complexes.

(4) Establishing Systems to Promote Construction/Consumption of Quality Public Rental Housing

Promotion measures for rental housing which match the conditions unique to China should be established. Examining “Quality Rental Housing System” in Japan or similar systems in other countries can be useful. By clearly defining requirements to receive preferential treatment, only certain groups of people (income level, age, etc.) can be made eligible for the preferential treatment. At the same time, this will help shape housing market to meet various consumer needs, (by supplementing supply systems of newly established commercial housing,) which tend to focus only on satisfying high income earners’ needs.

5.4. For the Establishment of Infrastructure for Promoting Housing Policies

For the promotion of housing policies in China, following objectives should to be achieved:

- (1) Accurately grasp changes in people’s needs toward housing and establish housing plans based on quantitative prospects of demand for housing;
- (2) Investigate the effectiveness of housing plans/policies on a periodical basis, and establish a system to incorporate the results of investigation in the subsequent plans and;

- (3) Develop housing plans which consider the total number of houses required in public/private sectors, in regional/national level, and the amount of public fund needed.

Developing and utilizing housing-related statistical system, and establishing a process for housing plan (housing fund plan) are required as an infrastructure to achieve the above objectives.

1) Developing and Utilizing Housing-Related Statistical System

Currently, numerous types of statistics are being developed in China, (such as statistics for investment and sales,) and are provided on-line. However, utilization/usage of these data is extremely limited, and a wide-range of information required for building housing plans has not been created.

Therefore, housing statistics system, which shows current situations of housing (amenities), people's needs toward housing, and effects of establishing houses, should be developed as system infrastructure to help affiliate organizations build plans that meets consumer needs. In addition, a method that systematically incorporates these matters into housing plans should be established.

2) Establishing Process for Developing Housing Plans (Housing Fund Plans)

In order to cope with rapidly changing housing market, and to promote effective housing policies (which are in line with housing finance) for mid-and-long period of time, current mid-and-long term housing plans need to be elaborated and looked at from a different angle. Particularly, the Five-Year Plan for each city (plan period is five years) and the Housing Development Plans (plan period is 5 years and 20 years) need further review and modification.

Traditionally, developing plans and relevant fundraising/financing measures have not been properly linked in Chinese housing plans. A framework and process, which will help forecast demands for housing/housing fund accurately, and to incorporate results of forecast in housing (construction) plans flexibly and promptly should be developed.

Specific measures that should be investigated include: a) developing and utilizing forecast method for housing demand; b) establishing organization structure for cross-sectional housing policy development and assessment; c) building information network to support housing plan development; and d) retaining and training professionals.

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Main Report

[Summary]

1. Basic Points in the Reform of Housing Finance System

1.1. Housing Promotion, and Grasping of Demand for Housing

1.1.1. Changing Housing Market Structure

(1) Housing Market Economy in China

China is in the initial stage of a housing consumption boom as a result of the housing system reform and the housing investment promotion policy (one of the domestic demand expansion measures set out in 1998). Before the housing system reform, the housing market in China was composed of the construction of company houses by state and public enterprises (called basic construction investment), and their distribution to the staffs. After the reform, the housing market shifted to construction and marketing of “merchandise housing” by real estate companies. The merchandise housing area increased from 27,450,000 m² in 1991 to 165,570,000 m² in 2000 (6.0 times or 22.1% annual growth rate; see Table 1-1). Merchandise housing purchased by individuals exceeded 87% of all merchandise housing sold in 2000. Individuals are more important than companies as housing customer in the new housing market. Market Economy is remarkably advancing in the housing industry.

Table 1-1 Commercial Housing Sales all over the Chinese Territory

Year	Area sold			Private purchase		Sales (0,000 RMB)	Selling unit price (0,000 m ²)
	(0,000 m ²)	Growth (%)		(0,000 m ²)	Share (%)		
1991	2,745	7.9%		927	126.8%	2,075,979	756
1992	3,812	38.9%		1,456	57.1%	3,798,493	996
1993	6,035	58.3%		2,943	102.2%	7,291,913	1,208
1994	6,118	1.4%		3,345	13.6%	7,305,208	1,194
1995	6,787	10.9%		3,345	0.0%	10,240,705	1,509
1996	6,899	1.6%		3,667	9.6%	11,069,006	1,605
1997	7,864	14.0%		5,234	42.7%	14,075,553	1,790
1998	10,827	37.7%		7,793	48.9%	20,068,676	1,854
1999	12,998	20.0%		10,409	33.6%	24,137,347	1,857

Source: China Statistics Yearbook 2001

(2) Market Economy in 3 Model Cities

Transformation to market economy is quite preeminent in the three model cities of this research study, Shanghai, Wuhan, and Chengdu. These three cities, particularly Shanghai, are considered as the leading force for China’s housing reform, and which at present is rapidly prevailing throughout the country. Likewise, the “Economization of housing market” is quickly accelerating in the three model cities. For example, as shown in Table 1-1, “Ratio of housing completion area to housing stock”, the figure for Shanghai has been at a high standard of 4% since early 1990’s, and had risen consistently until 1996. In Wuhan and Chengdu, a big

boom has been observed in housing construction since 1994, and ratio of housing completion area has remained at a high standard of 2-4%.

The growth and development of the Chinese housing market as discussed above, is starting to slow down in some of the large cities. The sales of housing in Beijing showed a significant increase in the past few years (1998 to 2000). As a result, demand for housing is starting to drop. Housing sales per square meter in Beijing has shown a minor decrease, from RMB 47,869,000 in 1999 to RMB 45,572,000 in 2000.

However, from mid-and long-term perspectives, demand for housing by those who currently live in company housing or by lower-mid income earners is expected to remain strong because of stable economic development and various system reforms. The percentage of housing completion area in housing stock is between four to nine percent. This figure is quite high compared to the figure in other developed countries. Therefore, commercialization of housing and steady increase of housing stock are expected to continue in the future.

1.1.2. Changing Market Structure and Necessity of Grasping Housing Demand

(1) Housing Policy Should Match Structural Change

The three players in the housing market in China are homebuyers who purchase/live in houses (to possess, or use it, or "consume" housing by renting), suppliers (constructors) who construct merchandise or rental housing, and information and main service providers who offer services to both purchasers and suppliers, (playing the role of a bridge between them).

The fast advancing market economy in China has brought about significant structural changes for purchasers in particular: enhanced income and savings level and purchasing ability reflecting fast growth of market and economy; company houses turned into privately owned houses through disposal; increased purchase and moving to new merchandise housing from (public) rental housing or disposed housing; and increased private rental housing as a result of re-rent of public rental housing and offerings of own houses (old housing) in the rent market.

Housing demand is also changing dramatically due to the appearance of a new purchasing layer that has never been expected before. This reflects the recent environmental changes including increase in overall population and households, as well as those households each possessing two or more houses.

The supply side is not sufficiently responsive to these changes on the demand side. There remains a big difference between the housing price offered by the developers and the purchasable price for consumers. Those who can actually purchase housing are only a fraction of the total. Sufficient dwelling space has neither been attained in spite of efforts.

The activities of the housing market players will be increasingly vigorous in the future, and the filtering system will surely be formed and develop to enhance dwelling level through moving to new houses. Considering the acceleration of market eonomization in housing sector,

two major issues in housing policies, which need to be examined, are:

- 1) To develop a system to stimulate potential homebuyers by establishing housing market and housing finance system. This will be necessary for increasing demands for privately owned housing by mid-income earners, who tend to be cautious about purchasing houses.
- 2) To establish policies to boost various housing markets (primary market and secondary market), including markets for existing homes and rental housing. This will help individuals in diverse income levels to purchase/maintain houses, which meet their individual needs.

(2) Necessity of Grasping Housing Demand

Housing demand directly reflects the current action and needs of the purchasers. Grasping the housing demand is indispensable for understanding structural change of housing demand and designing a policy or a system to solve the contemporary housing problems and tasks.

Except for a few cities, housing demand in general, is not accurately grasped, and even if grasped, the prediction techniques used were quite inadequate. For example, demolishing of old housing and replacement with new housing are very important factors in a housing demand prediction model. Unfortunately, housing stock is not grasped by vintage (age of housing) in the three model cities, and thus it is impossible to correctly reflect the data on the prediction model. It is essential to predict housing demand including estimation of the level of loss if one wishes to set up feasible housing plans, housing policies, and housing finance policies.

To encourage housing promotion activities in China (expansion of privately owned housing purchaser layer and increase of purchase of existing housing), one need to accurately forecast the purchaser needs, grasp housing demand by income level, attributes, and region, and take measures to assist in housing acquisition and dwelling space enlargement.

1.1.3. Outlook of Demand for Housing/Housing Fund, and Future Recommendations

It is predicted that demand for housing will increase mainly among (lower) mid-income earners in China, due to rapid economic development. Therefore demand for housing fund is also expected to increase greatly.

Below are key results of research on demand for housing/housing fund in the three model cities (Shanghai, Changdu, and Wuhan).¹

¹ Please see Chapter III for the detailed result of study on demand for housing/housing fund.

- 1) Total number of demand for housing in Shanghai for the next ten years (2001 to 2010) is estimated to be 826,000 for privately owned houses and 938,000 for leased houses. Accelerated urbanization will increase fluid population, which will result in the greater demand for leased houses. It is predicated that the increased demand for housing will result in demand for housing fund of RMB372.96 billion.
- 2) Demand for housing in Wuhan for the next ten years is estimated to be 577,000 for privately owned houses and 265,000 for leased houses. Compared to Shanghai and Chengdu, a large number of company housing by state-owned corporations still exist in Wuhan. Therefore, the percentage of individuals who currently live in company housing and who are expected to purchase their own homes is large. It is predicated that the increased demand for housing will result in demand for housing fund of RMB9.4 billion.
- 3) Demand for housing in Chengdu for the next ten years is estimated to be 291,000 for privately owned houses and 557,000 for leased houses. In Chengdu, the percentage of individuals who wish to move from rental houses to privately owned houses was the lowest among the three model cities. However, due to large-scale development of western China led by the government, demand for leased houses caused by increased fluid population will be as high as Shanghai. It is predicated that the increased demand for housing will result in demand for housing fund of RMB4 billion.

Key results of this research study discussed above indicate that: a) public housing finance system has to be established by revising the existing Housing Provident Fund System (hereafter "HPF System"); b) low-cost and high quality housing fund has to be provided and; c) commercial finance system equipped with diverse and attractive financial products should be developed by private financial institutions.

1.2. Role of Housing Finance in Housing Promotion Activities, and the Required Basic Framework

1.2.1. Importance of Housing Promotion in the Development of China

(1) Acquisition of Quality Housing as National Target

Introduction of market economy started in the early 1990s in China. Food and clothing are sufficient now but, generally, quality housing is difficult to obtain.

The Outline of Tenth Five-Year Plan articulates development as the main theme. Enhancement of the people's living standard is the basic start line. To that end, economic development is tied with social development, and the "enhancement of the people's living standard" is enumerated as the clear-cut target for the first time.

(2) Harmful Effects of Monetization of Housing

Monetization of housing is the basic direction of market economy. It relieves the central and local governments, and enterprises of the burden of housing construction and enhances the transparency of housing acquisition. On the other hand, the low incomers, who could secure housing by payment in kind, now find it difficult to get housing. Those who can purchase housing within 5 times the annual income are limited.

(3) Necessity of Comprehensive Measures and Adjustment

Enterprises have been freed from being the single source of responsibility for social security because China is now a regular WTO member and pursues open policies and a market economy. Social security responsibility is shared among individuals, enterprises, and the government.

Comprehensive measures are required to cater for those who have no if not poor burden sharing capacity. A scheme is necessary to study extensively and adjust as required in broad perspectives.

(4) Economical Housing System for Middle and Low Income Layers and Its Problems

The economical housing system is a public support system to supply low-priced housing. It is an effective housing policy given the conditions of China. However, in reality the system does not only supply housing to the middle and low income layers, but to some extent, well-off people (capable of purchasing ordinary housing) purchasing the economical housing. The MOC policies requesting the strict observation of the economical housing system is quite opportune and appropriate. Careful operation of the system is required to truly promote economical housing. It is necessary to solve some existing problems regarding sale of economical housing and the management of the resultant housing market.

(5) Housing Promotion-related Political Tasks

In addition to acceleration of housing acquisition by the middle and low income layers, the following are the typical tasks regarding housing promotion: a) to be successful in the reform of state enterprises, solve housing problems and set up a social security system, b) minimize loss of cultivated acreage due to housing promotion and actively accept surplus agricultural labor in cities, and c) take measures for the expected aging population.

1.2.2. Housing Industry Supports Domestic Demand and Economic Growth in China

(1) Weight of Housing Industry in Economy and Domestic Demand in China

The most important task for China is to maintain a high economic growth rate. The

Outline of the Tenth Five-Year Plan reads that gross domestic products (GDP) will be doubled in 10 years with approximately 7% annual growth rate during the term.

Housing expenditures in two fiscal years in 1998 through 2000 increased average 11.0% annually and consisted approximately 19% of nominal GDP increase.

Of the carriage and three (export, investment, and domestic demand) supporting high economic growth in China, the housing industry will surely play a very important role in investment and domestic demand in the years to come.

(2) Ripple Effects of Housing Investment on Economy

The effect of housing investment on economy in general is also significant. The effect of housing investment on industries is not single-folded. The total ripple effect of housing construction investment on industry in general is approximately 2.0 times the investment when calculating with the complete consumption coefficient applicable to the construction industry in the inter-industry relations table.

Total housing investment of RMB2.5 trillion in the 9th 5-year plan (1996 - 2000) had a total ripple effect of double that figure or RMB5.0 trillion. For the two fiscal years in 1998 through 2000, in particular, housing investment grew average 10.4% annually. Considering influences to all industries, housing investment consisted 32.5% of nominal GDP increase, thus played a major role in economic growth.

Housing construction greatly contributes to economic growth. Financial measures to promote housing construction are effective political investments to drive economic growth.

(3) Housing Industry and Employment

Housing industry favorably affects employment as well. Employees in the entire real estate industry including housing industry increased by 2.25 million in two years of 1998 through 2000. This accounts for 18.7% of total employee increase (12.02 million) covering all industries during the period.

The ratio of employees from farm villages is predominantly high in the real estate industry. A total of 35.52 million people worked in the real estate industry in 2000, of which 76% came from villages. Real estate and housing are the two major industries accommodating labor coming from farm villages (China Statistics Yearbook, China Construction Industry Yearbook, and China Construction Industry Statistics Yearbook).

As discussed above, the ripple effect of housing construction on the entire industries is equivalent to approximately twice the housing investment. Assuming the employment index (number of employees per unit production amount) is same as housing construction, the employment effect can also be very great. The increase in employees in real estate construction during the 1998 - 2000 period (1.9 million) must have created 3.8 million employments in other industries. This accounts for approximately 47% of increased

employees in all industries during the same period.

Economic and employment effects of housing promotion are very great. The housing industry is one of the major industries that accommodate a large number of labor from farming regions. Political backup of housing promotion is important also from the viewpoint of employment policy.

1.2.3. Finance System Reform and Housing Finance

(1) Current Condition of Bank Housing Loans

Housing loans handled by commercial banks sharply increased since the latter half of 1999. Banks are generally not passive for time-consuming personal loans. Rather, they believe that their business increases with personal loans, and welcome them. Personal housing loans are increasing more than initially planned, but the possibility of short funds is very small at least for the time being.

(2) Housing loans as an effective method to improve the quality of credited loans

Personal housing loans by commercial banks have been increasing throughout China in recent years. The fact that the breach rate of personal housing loans is way below 1% indicates that personal housing loans could be an effective measure to improve the quality of credited loans. One of the most serious issues for Chinese commercial banks is how to handle non-performing loans. Traditionally, borrowers of government-owned commercial banks have tended to be state-owned companies, and personal housing loans occupied only a small portion. If government-owned banks decrease the amount of loans to state-owned companies, and instead increase personal housing loans (quality credit), credits by commercial banks, particularly those by government-owned commercial banks will improve. This will also result in increased profits.

(3) WTO Membership and Financial Business in China

Foreign financial institutions will start consumer finance business in China 5 years after China becomes a regular WTO member. Within this period, the Chinese financial system must undergo a drastic reform to reinforce its physical strength and constitution, and the Chinese financial institutions must increase their strength including development of internal management system and enhancement of financial product developing ability.

State-owned commercial banks are being innovated but local small and medium-size financial institutions may find it difficult to adapt to the expected changes in the financial field due to their limited size. Financial institutions will heavily rely on computer systems, and small-sized local institutions may suffer from a digital divide because of their limited investment capacity. To avoid the problem, measures should be sought such as sharing of

computer systems, fund accommodation, creation of an inter-industry lateral organization, and possibly merger.

(4) Cooperation among Banks and Development of Business Manuals

It is strongly desired to develop diverse financial merchandise and establish a risk management system reflecting the conditions of China. Chinese banks have many operation bases with different local characteristics. Considering possible conversion into securities in the future as well as the above conditions of Chinese banks, the Chinese banks should not only compete with one another but also cooperate in order to confront foreign banks. The system of conversion of housing loans into securities in the United States requires the use of standard forms for applications and supporting documents. It is recommended in China to use standard forms as a token of cooperation among banks. It is also profitable to develop manuals for various housing loan-related businesses to improve efficiency and facilitate risk management.

1.2.4. Housing Policy Finance Should Aid in Benign Circulation of Economy

(1) Financing for Housing Policy to Enhance Housing Purchasing Ability and Motivation to Purchase a House

Current housing prices in China well exceed five times the annual income of average earners. It is necessary by all means to lower the housing price by effectively operating a housing policy and enhance the house purchasing ability of people through housing policy finance.

Housing policy finance is an incentive to enlarge the housing purchasable layer. It should be designed to motivate purchase of a house. This requires construction of a housing policy finance system from the viewpoint of low interest housing policy finance, loan interest filling, and government guarantee, and private commercial finance and housing policy finance should coexist.

(2) Financing for Housing Policies as Cost of Economic System Reform

Financial revenues of the Chinese government are not very much affluent but financial spending in social security and disposal of nonperforming loans is a cost to reform the economic system from planned to market economy. Payment in kind by housing was abolished in favor of monetization of housing but there still exists the middle and low income layer who is unable to purchase a house under the new system. Measures to enable these people to purchase a house are also a "cost of reform."

The government need not pay the cost of reform to those who can purchase a house using commercial loans, etc. Payment of the cost of reform is necessary for those middle and low income people whom the banks do not heed and those people who are difficult to purchase

a house after introduction of monetization of housing.

(3) Financing for Housing Policies Which Will Lead to Lower Financial Cost

Benign circulation should be realized by introducing financial support that fits the conditions of China and produces the multiplier effect. National finance is improving but is not founded sufficiently well. Local government finance is weak. The cost of reform that the government pays will surely diminish if the housing purchasing ability is strengthened as a result of efficient use of financial funds such as in the policy finance and preferential tax system, and appropriate use of national credit.

Various types of merchandise and systems should be developed, including introduction of low interest rate and long term fixed interest rate housing loans, fund raising for said loans using government guaranteed bonds, and conversion of housing loans into securities.

(4) Government Supported Private-sector Housing Construction

Private-sector housing construction does not depend on commercial bank housing loans but can be promoted by the national policy.

To reduce the cost of adjustment during the transition period from planned to market economy, the government should introduce a system to support personal housing loans by way of government's interest subsidy, guarantee, etc., although the national finance might be tight. The government may limit the effective period or total available amount if necessary. The essence is that not all should be left to the market that is not yet well established.

(5) Fixed Assets Tax Revenues May Be Used as a Financial Resource to Relieve the Weak

It is worthwhile to seek possibility of levying a fixed asset tax on asset possessing individuals and enterprises, using the resultant tax revenues to relieve the weak. Many real estate-related taxes with various names exist in China, and also many expenses are collected. It should be considered to streamline these taxes and expenses to some extent and levy taxes on the owners of housing (possessing as an asset) to such an extent that the taxes collected can be used as an effective financial resource to relieve the weak.

1.2.5. Focal Point of Housing Finance System Reform: Support Common People to Form Assets, Boost the Purchase of Privately Owned Housing, Framework to Stimulate Benign Circulation of Economy

Key objectives of housing finance system reform can be summarized as following: a) to assist people to form assets; b) motivate people to purchase their own houses and; c) stimulate benign circulation of economy.

(1) Assist people to form assets

1) Housing loans with long-term, low-interest, fixed rate and credit guarantee

In China, houses are no longer provided by companies or government institutions. Instead, houses are now considered as something each individual must obtain by him/herself. Housing loans are important system for those who wish to purchase houses. Repayment programs, which are manageable and foreseeable, are needed. Therefore, housing loan programs with long-term, low-interest, fixed rate must be established in China. If such loan programs become more common, credit risk will be greater for lenders, which will increase the need for well-established credit guarantee system.

2) Stable and efficient operation of housing finance system

Housing loan programs with long-term, fixed, low-rate interest rate should be promoted as a support system for asset formation. As a result, various new measures have to be established in Chinese housing finance system, such as diversification of risks, advanced analytical technique for interest rate risks, and financing methodologies. Also, administration procedures have to be standardized in order to increase the efficiency in handling documents and forms.

3) *Improvement of Housing Provident Fund System and establishment of financing organizations for housing policies*

In order to assist people to form assets, the most urgent areas of reform are HPF System and guarantee organizations.

A written survey conducted in this study shows that despite some areas that will require improvement, HPF System is considered favorably for the most part. However, if examined from a long-term perspective, HPF System is not fulfilling its original objectives. In principle, the system has to be an efficient and stable system that is operated to bring as much benefits to program participants as possible.

HPF System reform should include following measures: a) Integration Centers should be established on a national level; b) HPF Management Centers which currently exist in various cities should be reorganized and integrated; c) HPF Management Centers should be governed under Integration Centers and; d) guarantee organizations should be established as part of Integration Centers. Integration Centers, which will specialize in financing for housing policies, should be supervised by People's Bank of China and placed under the MOC, as an administration body of housing policies.

Integration Centers should possess diverse fund management authorities, such as political financing, which includes investment/management of provident funds, issuance of government-guaranteed bonds, and construction of economical housing. Significant impact is expected from this political financing organization, through execution of housing policies, boosting of domestic consumption that will result in

synergy effects.

(2) Motivate citizens to purchase their own houses
Limitation of private housing loans

1) One of the limitations of private housing loans is that these loans do not help individuals purchase their own houses. For private loan companies, corporate customers are existing borrowers who are already doing business with, and there is a great need for continued loans for these customers. However, in the case of housing loans, borrowers are often individuals who apply for loans for the first time. Private loan companies often give low priorities to these individual customers, particularly when demands for loans from corporate customers are high. Public housing loans are designed so that they will exert direct impact to economy.

2) Need for policies to promote private home ownership

Japan and many European countries have various measures to promote private home ownership such as tax preferential treatment, interest rate subsidy, and housing allowance. These measures are effective in motivating individuals to purchase houses. China's financial capability is limited. However, the country should establish policies to promote private home ownership, in accordance with its financial conditions.

Three major housing policies in the Outline of Tenth-Five Year Plan are the HPF System, Economical Housing, and low-rent housing. In particular, Economical Housing should motivate lower-mid income earners to buy their own houses.

The MOC plans to establish a new urban housing structure in the next five years. The new structure should rely on national and regional finances as little as possible. It should allow people to maximize the usage of their own funds, which should result in more active housing market. A new urban housing structure covers all issues related to stimulating housing market.

3) Establishment of Comprehensive Housing Market Structure

Housing is expensive and considered as an item which impacts one's entire life. Therefore, it is important for people to form assets and gradually increase their housing purchasing abilities. For example, one can live in a rental housing at first and then purchase an existing home. China needs to establish more comprehensive and stable housing market structure, including primary market (existing home market) and rental housing market.

(3) Benign Circulation of Economy

Housing finance system is expected to vitalize economy by enlarged circulation of houses. Boosted economy will result in even greater circulation of houses.

Therefore, housing policies designed to increase the number of people with housing

purchasing abilities, should be included in housing financing system.

Lower housing prices and improved housing purchasing abilities by financing for housing policies are required. In addition, the government should pay for "reform costs" so that lower-mid income individuals, whose chances of buying houses became slim due to monetization of housing, can also purchase houses

Benign circulation of economy can be achieved by examining current conditions of China, and also by providing financial assistance, which will result in multiplied economic effects from advancement of housing market.

1.3. Basic Direction of Housing Policy Finance

1.3.1. Purpose of Housing Policy and Basic Tasks

The ultimate purpose of housing policy is improvement of living environment, dwelling environment in particular, and enhancement of the value of social assets, housing assets in particular, for the entire nation. With this in view, political housing finance with diverse and flexible schemes for fund raising and operation must actively support the central government in execution of the housing policy.

The housing policy and the relevant legal system in China have three major political tasks associated with the housing finance system:

- 1) To offer people at various economic levels with diverse life style opportunities of purchasing housing and selecting dwelling environments.
- 2) To enhance dwelling environments, the government should ensure formation of a good housing stock in a planned manner and continually, enhance the value of assets for the entire society (the value of both social and personal assets).
- 3) The government should always guide and complement housing market while utilizing housing market mechanism and applying appropriate political means, in order to maintain sustainable development.
- 4) Passing a house promotion, it shall strive for the economic ripple effect of the nurturing and the promotion and others of a business measure and the house relation enterprise

1.3.2. Basic Concept of Housing Policy

The following basic concept is the base for deploying housing policy effectively using

housing finance with the above political tasks in mind:

In line with the start of the housing distribution in cash in 2000, various demand side housing policies and the relevant legal systems should be established covering, for example, promotion of housing purchase and moving to a new house by private entities of various levels. This is necessary in addition to supply side measures such as housing supply by public entities. In short, new housing policies should adapt to changing housing market, and diverse demands for housing affected by housing consumption level, consumption level, family structure, and life styles.

To drive the demand side policy, incentives (preferential treatment) should be given to housing market players who are related to and contribute to execution of housing policy in various ways in the housing market in general. Also, overall demand for housing should be clearly defined and gradual housing consumption structure has to be implemented.

The government (administration) is required to achieve the political purpose effectively with incentives given to players in the housing market. This will allow the government to intervene in, guide, and complement the housing market.

Such government (administrative) guidance is possible by home ownership promotion policies and filtering policies. Upon implementing these policies, it is important to establish social infrastructure that will first vitalize housing market and ensure the smooth function of housing market. This will require not only the establishment of material infrastructure, but system infrastructure and structural framework as well.

In establishing system infrastructure and structural framework, political housing finance system will play a critical role. In order to promote housing policies on a long-term basis, the linkage between housing policies including relevant legal system, and political housing finance system, will be quite significant. In particular, politically-guided housing and housing finance system must be linked closely.

Chinese government needs to move from a direct administrative control model which has been traditionally dominant, to administration-leading model by utilizing banking, financing and system infrastructure. In order to promote policies for politically-guided housing on a long-term basis, financing system for housing policies must be developed.

1.3.3. Basic Direction of Housing Policy Finance

(1) Vitalization of Housing Market

Many houses were constructed for the purpose of payment in kind in China and the quality of housing stock is not high. The aim of the housing policy is to continually improve housing stock through moving to a new house by filtering. A housing market with liquidity is necessary. That is, the main players in the housing market should be not only new houses but also existing housing including disposed housing as well as rental housing that was not much

heeded in the past.

The most basic condition for supporting this type of housing market is existence of diverse housing types (mainly politically-guided housing), odds of supply types, creation of phased housing consumption structure and functions to provide incentives to promote filtering while utilizing financing for housing policies.

(2) Enrichment of Politically-Guided Housing

The government needs to provide public housing to the people who cannot purchase houses by themselves, in accordance with housing policies, as part of social securities system (for example, low-rent housing ("low-income lease housing") system). In establishing housing finance system, it is important to focus on wide range of politically-guided housing, rather than on houses designed to achieve social securities-related objectives. Economical housing can be viewed as a type of politically-guided housing in China today. However, various politically-guided housing should to be introduced, such as high quality housing, housing for elders, barrier-free housing, housing for filtering, two to three family home, houses designed for SOHO workers. Therefore, financing structure for housing policies designed to assist people in purchasing politically-guided housing, should be developed.

(3) Establishment of System Infrastructure

Assuming that demand side measures will be the central point in the improvement of the current housing policy and the related legal system, the most important task is the establishment of system infrastructure on which individuals and businesses are asked to behave in the market. In other words, the basic tool of intervention and guidance to be used by a fair government (administration) must be devised.

It is necessary to a) establish a housing distribution base including development of housing evaluation, display, and guarantee systems, b) develop multi-stage housing quality standards for the purpose of adequacy of political loans (provision of incentives) at each level of housing formation (new housing) and maintenance (existing housing, reform, etc.), and c) enrich various mortgage, guarantee, and insurance systems to indirectly support the consumers' housing purchasing ability. Note that government funding and policy finance are generally associated with political loans.

(4) Developing Mid-and-Long Term Housing Policies Based on Demand/Fund Forecast

The current mid- and long-term housing plans, Housing 5-year Plans (5 plan years) in cities in particular, and the Housing Development Plans (5 and 20 plan years) in the General Urban Plan require change of conception and enrichment of the contents if one wishes to drive the housing market-oriented housing policy as scheduled.

From now on, China needs to accurately forecast demand for housing and housing

fund, considering not only objectives in social and economic development, but people's needs toward housing, and changing economic structure also. In addition, a structure to incorporate these issues in housing plans in a flexible and prompt manner has to be constructed. It will be important to secure politically-guided housing, and to incorporate support structure of financing for housing policies (which assist politically-guided housing) in housing plans.

(5) Developing Framework for Financing for Housing Policies

The government intervenes in and guides the nation's housing development by executing its housing policy continually and stably. Incentives with various political intentions are an effective means to be given to housing market players. The supporting finance system cannot entirely rely on the private sector, and a financing scheme for housing policies must be set up.

In Japan, Europe, and U.S., sufficient funds are secured and distributed as required. The public and private sector share the roles in the saving and deposit system and housing finance system. The government's financial aids and tax subsidies complement the efforts of the public and private sector. In China, a financing scheme for housing policies should also be constructed as soon as possible to support the housing policy that is suitable for the conditions of the country.

2. Basic Direction and Measures for Reform of Housing Provident Fund System

2.1. Housing Provident Fund System and its Tasks

In China, government institutions, companies and workers are required to participate in the HPF System. Participants make deposits into the HPF System, which in turn gives loans to the participants for purchasing or refurbishing houses, by utilizing reserve fund as source of investment. A mandatory housing saving program, such as the HPF System, is unique and does not exist in any other countries including Japan and European countries. Chinese government positions the HPF System as a core of allocation policies of monetized housing. Major issues in the current HPF System are summarized as below:

- (1) A large gap exists between loan limits and market prices of houses in urban cities.
- (2) 1% interest rate difference (compared to commercial banks) and variable rates are not enough to meet users' needs.
- (3) Passive loans due to the lack of technical knowledge and processing abilities.
- (4) Passive loans caused by the lack of abilities to handle credit risks due to small organization size.
- (5) Lack of fund accommodation functions among HPFs due to decentralized management.
- (6) Shortage of loan funds caused by increasing bad loans, due to poor performances by investees.
- (7) Lack of independent financial management
 - 1) "Two signboards, same people": the relationship between HPFMCs and administration divisions is vague.
 - 2) Deposits are viewed as "levied special funds" and not as debt to participants.
 - 3) Responsibilities and obligations of HPFMCs and program participants are vague.
 - 4) Shortage of personnel with technical knowledge.
- (8) Asset Liability Management (ALM) is not thoroughly practiced.
- (9) Audits of HPF financial information by a third-party are prevented due to "undeveloped and non-disclosure".

Following pages will discuss above issues in detail.

- (1) A large gap exists between loan limits and market prices of houses in urban cities.

Loan limits under the HPF System are based on numerous factors, such as the maximum amount of loans determined by each HPFMCs, household income, balance, the number of years elapsed since opening an account, and the number of service years until retirement. In Shanghai for example, loan limits are currently RMB100,000 which is way

below the actual housing prices in the market.

(2) 1% interest rate difference (compared to commercial banks) and variable rates are not enough to respond to users' needs.

Under the existing regulated interest rate by the People's Bank of China, interest rates under HPF loans (variable rate is 4.59% for a 30 year loan as of June 2001) have been set approximately 1% lower than rates of commercial bank loans. Each household is estimated to borrow RMB50,000 to 100,000 from HPF loans. One-percent difference in interest rate only means RMB40 to 80 less in monthly interest payment. This will not help vitalize potential effective demand for housing by average urban workers. In addition, HPF loans currently offer only variable rates, which are reviewed once a year. This might also discourage urban workers from using HPF loans, since fixed rate loans cannot address their needs to set the amount of monthly payment when interest rates are low (in order to minimize the risk of increased interest payment when interest rates become high).

(3) Passive loans due to the lack of technical knowledge and processing abilities.

Currently it is estimated that about 2,250 HPFMCs exist all over China. These HPFMCs are often small-sized with a limited number of employees. In many cases employees with limited financial knowledge are handling transactions. Interviews conducted in this survey uncovered HPFMCs where lending is not practiced because of employees' lack of screening abilities, or where employees do not have sufficient abilities to deal with default risks.

(4) Passive loans caused by the lack of abilities to handle credit risks due to small organization size.

In HPFMCs with only a few hundred participants, fund size tend to be small. Therefore, negative impacts to all participants are large even if only one participant fails to repay loans. Therefore, some HPFMCs keep deposits in consigned banks in order to avoid credit risks and do not give loans.

(5) Lack of fund accommodation functions among HPFs due to decentralized management.

A number of HPFMCs all over the nation are retaining Provident Fund deposited by individual participants in consigned commercial banks as reserve resources. Nevertheless, the so-called "territorial principle" hinders HPFMCs from lending funds among one another. For example, a HPFMC will not finance another HPFMC in the higher ranked administration district or in an adjacent ward, even if the latter runs short of the loan fund due to seasonal fund demands.

(6) Shortage of loan funds caused by increasing bad loans, due to investees' poor performances.

Investees are selected based on the guidance from local government institutions that oversee HPFMCs, or in some cases investees are selected illegally. Funds are misappropriated as budget for local governments, investment to government-owned companies, investment in properties, real estate, speculation, or stock market. Possibility for collection is slim in such investments, and the amount of bad loans is expected to be high. This has resulted in a shortage of loan funds despite large amount of total reserve.

(7) Lack of independent financial management

Quite a few mid-to-small-sized HPFMCs do not manage their financial standings independently as defined by the law. In fact, some of these HPFMCs manage finances jointly with administration units, such as Ministry of Construction, Housing Committee of local governmental offices etc. Consequently, actual conditions of the HPFMCs' business management alone are difficult to grasp. Four major factors that are preventing HPFMCs from practicing independent financial management are as follows:

1) "Two signboards, same people": the relationship between HPFMCs and administration divisions is vague.

HPFMCs should be independent from administration units of local governments. However, many HPFMCs are managed together with administration units, because of how HPFMCs were initially established. It has been reported that the same employees are working for both HPFMCs and administration units. This has resulted in "two signboards, same people" phenomenon. In many HPFMCs, operation costs are jointly managed with administration units.

2) Deposits are viewed as "levied special funds" and not as debt to participants.

HPFMCs tend to view deposits from participants as special funds "levied" by each local government in accordance with the law, since deposits are mandatory. Thus, they do not treat deposits as debt to program participants. Therefore, HPFMCs consider deposits as assets and are inclined to believe that they have total control over investment decisions. In short, a concept of assets and liabilities in balance sheet does not exist in HPFMCs, as in private companies in general.

3) Responsibilities and obligations of HPFMCs and program participants are vague.

Relationships between HPFMCs and program participants are not visible. It is not clearly defined whether HPFMCs are required to help manage deposits as an agent for participants, or whether some kind of debit and credit relationships exist between HPFMCs and participants.

4) Shortage of personnel with technical knowledge.

HPFMCs are small-sized in general and there is shortage of personnel with technical knowledge who have the ability to manage financial matters. Also, key management

of HPFMCs do not have financial knowledge, such as corporate accounting.

(8) ALM (Asset Liability Management) is not thoroughly practiced.

Revenues and expenses of HPF funds are not managed by a standardized computerized management system. In many cases, finances are managed by using data provided by consigned commercial banks. As a result, HPFMCs have not been preparing valid statements of affairs and earning statements.

Consequently, each HPFMC has been changing loan conditions flexibly. For example, loan limit is lowered when there is greater demand for loans, while it is increased when the demand is small. Under these circumstances, each participant is given different loan conditions, which has resulted in the lack of total balance as reductive loans. This is against HPFMC principles of providing equality and fairness to participants, as a public housing finance system.

In the assets section of HPFMCs' balance sheet, personal housing loans and investment in government bond are less problematic. However, as stated previously, development loans to companies, which turned into non-performing loans with slim possibility of collection, are not necessarily treated appropriately in accounting. In some cases, conditions of development loans that have become non-performing loans are not disclosed, or non-performing loans caused by illegal investments ("extracorporeal circulation of finance") are budgeted as costs in financial statements.

(9) Audits of HPF financial information by a third-party are prevented due to "undeveloped and non-disclosure".

HPFMCs are hesitant about disclosing financial information partly because information system is undeveloped, and also because some HPFMCs do not desire to release facts which might lead to the disclosure of management problems.

Each HPFMC discloses the amount of deposits and housing loans every year while emphasizing "actual performance". Under the MOF's accounting regulations for the Housing Provident Fund Centers, HPFMCs are required to create and disclose financial statements that clearly show the soundness and efficiency of management, based on actual cash value. However, some HPFMCs do not disclose such information claiming that it is "confidential information".

In principle, program participants who are stakeholders should also check financial conditions of HPFMCs. However, "double walls" (i.e. undeveloped financial statements and non-disclosure of financial information), are making it impossible for outsiders to audit HPFMCs.

This means that supervision and inspection of HPFMCs by the central government are not thorough, and only sketchy checks by "insiders" are conducted, despite the existence of

governments and Housing Committee.

2.2. Basic Direction of Housing Provident Fund System Reform

2.2.1. Housing Provident Fund System Reform from the Viewpoint of Policy Finance

Housing is considered a property or a service that is supplied and distributed freely in the market in Japan, Europe, and U.S. The administration intervenes in and supplements the housing market according to the established housing policy and guide housing supply and distribution in a desirable direction.

Public housing finance is responsible for political guidance by enhancing the housing purchase ability of the middle and low income layer, and offering housing loans. The other basic responsibility of public housing finance is to secure long-term, low interest bearing, and good quality financial resources for loans, and supply long-term, low-interest funds stably. With this in view, the basic starting points in the study of a desirable public housing financial system comprise the following:

- 1) Place the housing provident fund system at the center of the public housing finance system.
- 2) Aim for a system or an organization that distributes funds to housing finance through the government's political intervention.
- 3) Policy finance to achieve the standard target for dwelling.

Housing policy of the central government should be tied up with policy finance. The government should set up and proclaim a basic housing policy, and intervene in the housing market using financial and monetary means.

- 1) Creation of quality social capital and efficient utilization of existing housing stock.
- 2) Housing purchase ability must be increased to materialize the latent housing demand.
- 3) Procurement and supply of low cost and stable funds.
- 4) Guidance of investment in policy projects and of other policy purposes.
- 5) Housing policy should be linked to effective investment in housing and measures to boost the economy.
- 6) Provision of fair housing information, and housing consulting.
- 7) Development of a housing credit complement system.

As public housing finance system, the HPF System needs to strengthen following functions

- 1) Clarify the role of the housing provident fund system as public housing finance in the overall housing policy.
- 2) Reinforce control of housing policy at the central government level.
- 3) Thoroughly execute supervision, inspection, and guidance at the central government level.
- 4) Organization-wide readiness for liberation of finance as a result of China's membership to WTO.
- 5) Bring up expert finance staffs.
- 6) Inspect and reorganize the businesses of the housing provident fund management centers.

2.2.2. Housing Provident Fund Loan Conditions to Be Linked to Housing Policy

The loans under the current housing provident fund system is irrelevant to housing policy except that the loan interest rate is set slightly lower than private sector commercial loans. The housing provident fund system, as a means of policy finance, should offer new financial commodities equipped with loan conditions reflecting the housing policy.

For the purpose of housing policy, loan-eligible households (structure of the household, income, etc) and housing (size, price, and facilities of housing, etc.) should be clearly defined. The loan conditions that will be set should also be defined.

Loan conditions should include: a) politically-guided variable interest rates depending on desired housing size; b) houses equipped with quality and amenities based on policy objective; c) introduction of government-guided fixed rate, loan periods in accordance with periods of deposits and; d) increased amount of loans in line with policy objective.

2.2.3. Reduction of Loan Interest Rate and Operation Management

The most important role of the HPF System is to promote individuals to purchase housing using loans. However, ratio of personal loans in the HPF reserve is approximately 20%. Also, ratio of the HPF loans in personal housing loans has remained only around 20%. On other hand, there is a shortage of loan funds due to aggressive lending practiced in some cities. This clearly represents some of the issues the HPF currently face in fund management.

Typical reasons of insufficient loan contracts for the provident funds are a) effective demand for housing purchasing is not high, b) loan conditions are not attractive, c) the provident fund management centers lack lending functions, d) loan funds are limited, and e) financial resources for lending are short due to inadequate operation of the funds.

To make the HPF System more appealing, the interest rate should be decreased to

reduce the repayment burden for the users. The profit margin of interest rate for the housing provident funds is the difference between deposit rate for one year or above and loan interest rate for 6 years or above, or 2.61% (4.59 - 1.98%). This is 2 to 3 times higher than in other countries (0.85% for The Government Housing Loan Corporation, Japan, and 1.17% for housing savings in France).

According to a model simulation, the higher the loan ratio, the lower the profit margin of interest rate that is required to support the activities of a public fund management center. Raising loan ratio to 50% could result in lowering of the profit margin to one half the current level or 1.3%. Increasing to 80%, the profit margin is lowered to 0.8% and the loan interest is also reduced from current 4.59% to 2.06%.

To strengthen the lending ability, medium and small-sized HPFMCs should be integrated to achieve economies of scale and enhance efficiency of management. Risk distribution is also important to reduce risk. Training should be given to the HPFMCs in lending business in general. The relevant computer systems should be introduced as soon as possible.

To secure and build up financial resources for lending, use of the resources for other purposes should be banned and the funds be used only for lending to the extent possible. This requires sound finance. Importantly, correct and standardized financial statements should be prepared, information be timely disclosed, and a supervising function be available to check financial management.

2.2.4. Diverse Methods of Fund Procurement as a Public Policy Finance Function

The problems of the current housing provident funds include leveling off of hitherto rising subscription rate due to already high subscription rate, difference in the ability of depositing among subscribers, and uneven distribution of funds by area. Funds are already short because of increased provident fund loans and apportionment of the deposits. To carry on business steadily in the future, the housing provident funds must be integrated to increase the area of activities. Diversification of fund raising methods is also an urgent task.

To strengthen the policy finance function and enable stable supply for the housing provident funds, a system should be introduced to increase long-term and low interest rate funds assuming input of treasury funds.

Immediately available improvement measures include borrowings from local governments (including various foundations), borrowings from private financial institutions by guarantee of debts, and establishment of a rule for subsidizing interests on borrowings. In each fiscal year, a business plan (number of houses for granting a loan) and a fund plan (available funds in amount and average outstanding ratio) are prepared, and the loans and recoveries are controlled using the asset and liability management (ALM) method to ensure sound

management.

To alleviate fund liquidity risk, new organizations should be set up on the national and regional block level to transfer, deposit, and loan among blocks. To diversify methods of raising funds to be used in policy finance, a new housing finance system should be developed such as a voluntary subscription type housing deposits and savings system available for all people in the country. To realize this, government-owned savings and deposits and also housing provident funds could be introduced to the new system.

2.3. Basic Measures for Reform

2.3.1. Basic Viewpoints for Reconstruction of Organization

The nine basic viewpoints for organizational reform are summarized below.

- 1) Integration of current small-sized provident fund management centers.
- 2) Construction and reinforcement of training systems.
- 3) Standardization of HPFMCs' administration procedures, and development of comprehensive and integrated computerized management system.
- 4) Promotion of ALM in HPFMCs and reinforcement of the supervision/audition functions by the central government.
- 5) Wide-area accommodation of funds, and tie-up of funds with financial market.
- 6) Independency of HPFMCs, division between administration and finance, and reorganization of routine businesses.
- 7) Reinforcement of housing policy control by the central government.
- 8) Increased housing policy funds and political loans by the central government.
- 9) Aligning HPFMCs with local governments' housing plans and providing finance/tax assistance to local governments.

Items 1) through 4) relate to short-term or urgent tasks. Items 5) through 6) relate to mid-range political tasks.

2.3.2. Direction of Organizational Reform: Phased Organizational Reform

The main objectives of organizational reform proposed in this study is to: a) review the HPF System from various aspects, such as its nature, authorities, services, fund raising, fund management and politically-guided financing based on the nine viewpoints discussed above; b) construct a new, nationwide organizational structure; and c) solve issues which cannot be addressed by each HPFMC. Phased organizational reform, described below, is recommended.

A. Phase 1: "Administrative function model" reform

The goal of nationwide integration and reorganization of HPFMCs, based on the viewpoints 1) to 4) is to address issues related to organization management, which is one of the most urgent issues.

B. Phase 2: "Systemized finance model" reform

A new organizational structure based on the viewpoints 5) and 6) aims at strengthening HPFMCs' financial functions (mainly fund raising functions). It also includes a review of HPFMCs' administration flow.

C. Phase 3: "Specialized financial institution model" reform

The objective of a new organizational structure based on the viewpoints 7) to 9) is to launch financing for housing policies.

Figure 2-1 Phased promotion of Organizational Innovation

Classification		Phase 1	Phase 2	Phase 3
Type		Administrative function model	Systemized finance model	Specialized financial institution model
Basic target		Thorough execution of financial management	Diversification of funds raising	Linking of housing policy and housing finance
Target achievement year		On or before 2003	2003 to 2006	2006 to 2010
Name (central level) – tentative –		Central HPF Center (non-profit making enterprise)	Central Housing Finance Mechanism (non-profit making enterprise)	China Housing Finance Central Bank (joint-stock company)
Image of organization				
Head office (Beijing)				
Mechanisms				
Central Housing Committee		×	△	○
Business entrusting		Due-from-agency system	Direct operation department + due-from-agency system	Direct operation department + due-from-agency system
Base funds • Capital	Central level	× (Case 1) Establish departments of Ministry of Construction of People's Republic of China (Case 2) Establishment of construction special department	× Contribution	○ Stock (Case 1) Main body store (Case 2) Entrust to BHL with only head office Go public
	Regional level	○	○	—
	Area level	○	○	—
Funds raising	Central level	Emergency loan budget of People's Bank of China	People's Bank of China emergency loan budget, bond issuance, deposits	People's Bank of China emergency loan budget, new type housing saving credits, bond issuance, MBS external borrowing
	Regional level	Transfer among regional HPF s. Loans from the central level.	Emergency loans from the central level. Transfer between regional Centers and deposition.	—
	Area level	Loans from regional Centers Borrowing from private-sector finance with local government guarantee.	Emergency loans from regional Centers	—
Contribution of Mandatory HPF		○	○	○
Financial management	Inspection system	○	○	○
	Computer system	○	○	○
Housing policy and plan	Local (plan)	○	○	○
	Central (policy)	△	△	○
Credit complement	Institutional guarantee	△	△	○
	Insurance (life and non-life)	△	△	○
Training system		△	△	○

Classification	Phase 1	Phase 2	Phase 3
Others	(1) Integration of the HPFMCs by business type, and abolishment (2) Wide area activities, and integration and abolishment (disposal of bad debts) (3) Introduction of computer system (invite foreign investments)	(1) Investigate the national insurance system (Application of private-sector housing loan set finance) (2) Start investigation of MBS (Shanghai)	(1) The administration department of the HPF Center remains as it is while the finance department is transferred to the new organization. (2) Institutional guarantee will be newly added to the housing-related information service of the HPF Center. (3) Establishment of a housing finance training center.

Source: JICA Study Team

2.3.3. Details of Reform in Each Phase

(1) Phase One: Transformation to Administrative function model

The Central Housing Provident Fund Management Center and Provincial Housing Provident Fund Management Center will be set up at the national and regional block level, respectively. "Urban Housing Provident Management Centers" will be established at district level to form a 3-layer organizational system.

This is basically a continuance of the current housing provident fund system. The renewed system aims at solving the managerial and financial tasks confronting the current provident fund management centers on the national and regional level.

- Establishment of provident fund management mechanisms (Central and Provincial Housing Provident Fund Management Centers).
- Integration and reorganization of existing HPFMCs into Urban Housing Provident Management Centers.
- Development of a monitoring system for HPFMCs.
- Development of training systems and certification systems for housing finance personnel.
- Establishment of information system to improve the efficiency of administration work and customer management.

(2) Phase Two: Transformation to Systemized finance model

The Central Housing Finance Mechanism and Provincial Housing Finance Mechanism are set up at the central (national) and regional block level, respectively. The modified housing provident fund organization is as a 3-layer system finance system.

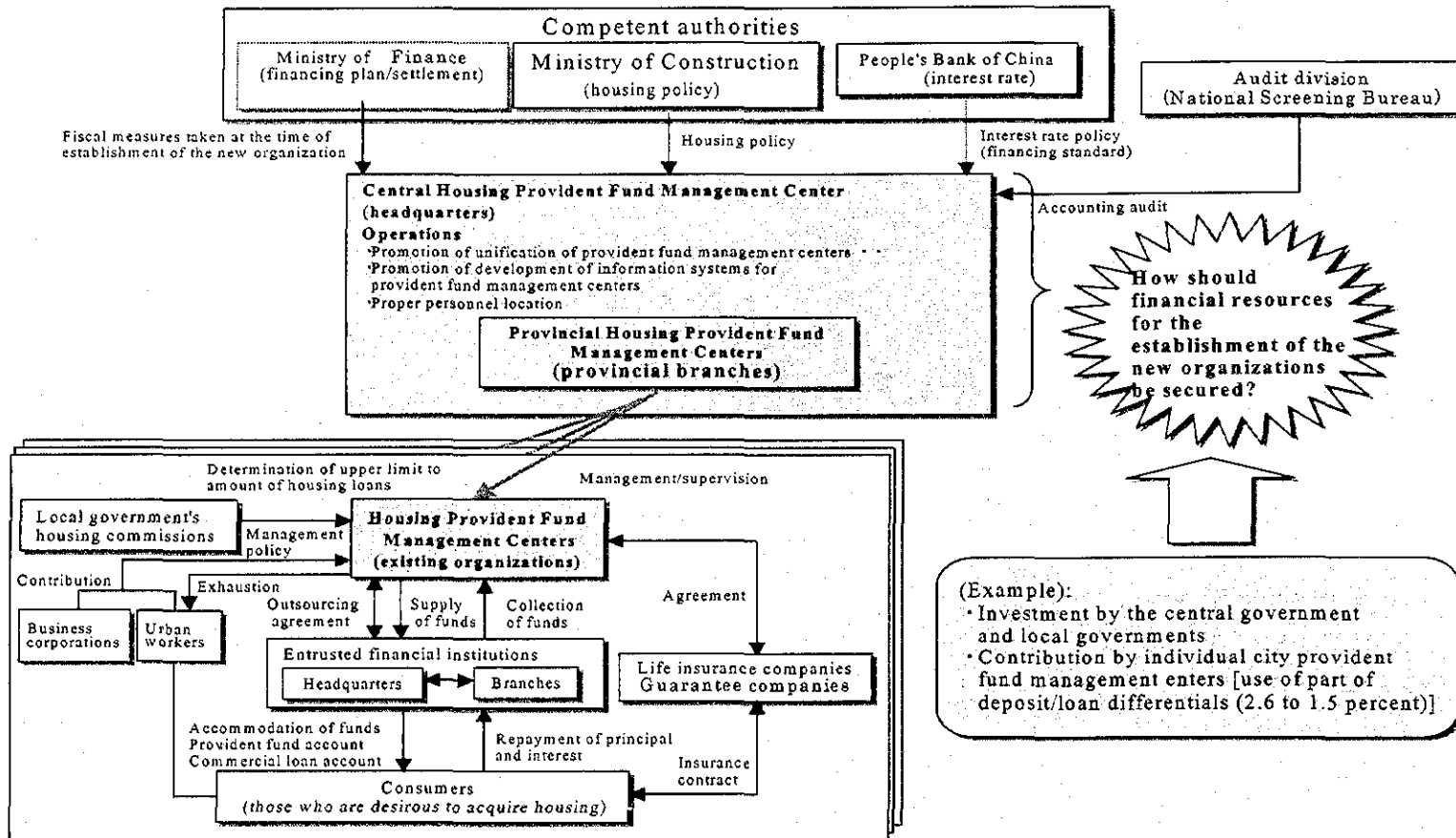
In the above overall scheme, credit associations and cooperatives are higher-level entities with organization similar to that of a central bank. As a central-level financial

institution, Central Housing Finance Mechanism will keep deposits for the customers, operate them, and issue debentures when necessary just as a major financial institution will do. At the regional block level, they use influence on local financial market through fund accommodation. At the area level, they keep close contact with the local entities and serve as a financial institution of mutual aid for the subscribers.

The system finance system can execute housing loans that are deeply rooted in the area, and thus retain the characteristics of conventional housing provident funds, which are by nature very much localized, to some extent. To raise stable funds and secure financial resources for loans that are not affected by demand and supply of funds in the financial market (these are generally difficult, and constitute weak points of policy finance), a financial coalition capable of accommodating funds both horizontally and vertically should be established to cover up the deficiency.

- Reorganization of HPFMCs to housing system finance mechanism.
- Accommodation of loan funds by provincial housing finance mechanism.
- Development of fund raising measures unique to the central housing finance mechanism, such as issuance of debentures.
- Increase of political loans, and start of political loans to housing suppliers (sale, rent).

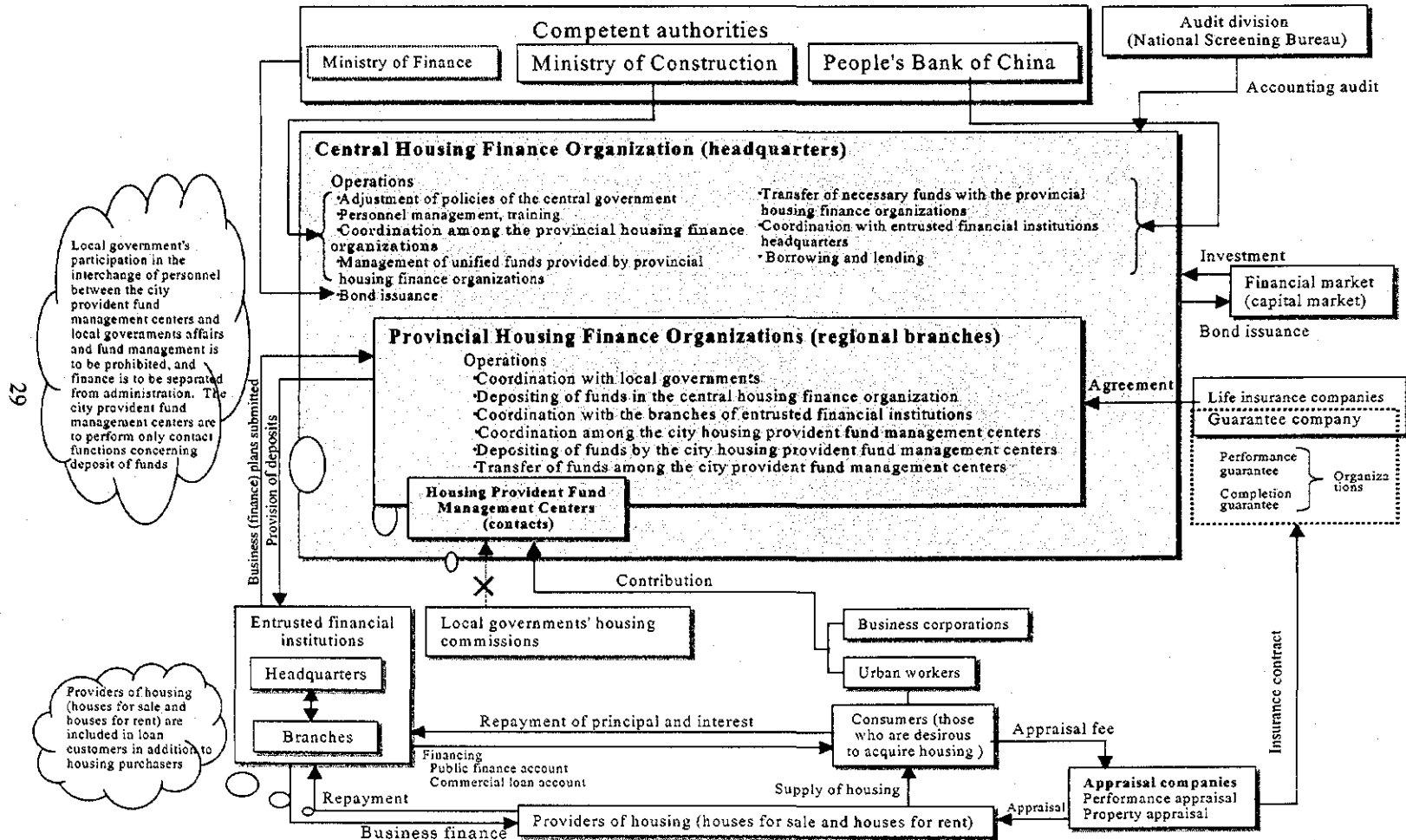
Figure 2-2 Image of Management Organization



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Source: JICA Study Team

Figure 2-3 Image of Systematized Finance



Source: JICA Study Team

(3) Phase Three: Transformation to Specialized financial institution model

The housing provident fund system is totally reconstructed, and “Central Housing Bank of China (tentative name)” is established as a specialized financial institution responsible for housing policy finance.

Central Housing Bank of China (tentative name), a new self-supporting organization, directly raises owned funds by collecting housing deposits and issuing debentures. The funds under the control of the government (housing provident funds, postal savings) could be concentrated at the Bank’s fund operation department (the housing provident funds may alternatively be transferred to MOC special accounts). The Bank uses these funds as financial resources to execute housing finance in accordance with the state’s housing policy.

- Establishment of the China Housing Central Bank (provisional): transition to specialized housing policy financial institution.
- Formation of Central Housing Committee, which is consultant to the management of the Central Housing Bank (provisional).
- Introduction of voluntary housing saving program.
- Introduction of a housing object tax (local tax, housing policy foundation).
- Reinforcement of the housing political loan function.
- Introduction of a housing policy information system to provide information on prospect of housing demand and supply, etc.

2.3.4. Personnel and Training System for the HPFMC Staffs to Support Reform

(1) Organization Structure

The full-time executives appointed to the management of the system should preferably not ‘parachute’ in from high quarters, but should be exclusively working for the housing provident management centers. Both horizontal and vertical personnel interchange is important, involving the associated entrusted financial institutions. Young staffs should also be aggressively appointed and promoted.

The area-level housing provident management centers will keep the same status for the time being to avoid violent changes in the course of the reform. They should prepare for the future by enhancing independency from local administration and industries. They may associate with the entrusted financial institutions but should not do so too closely.

(2) Training Structure

Generally, lack of human resources cannot be negated. This is due to the shape and

size difference of organizations. Expecting membership to WTO, China urgently needs to develop people well versed in finance in general. Designing comprehensive training scheme to provide a means for the principal and general staffs to enhance their ability and learn business processing techniques, with topics covering management of organization, loan examination, credit management, fund management, should be determined immediately.