

I. 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					Sales (0,000 RMB)	Selling unit price (0,000 m ²)
	(0,000 m ²)	Growth (%)	Private purchase (0,000 m ²)	Growth (%)	Share (%)		
1991	2,745	7.9%	927	126.8%	33.8%	2,075,979	756
1992	3,812	38.9%	1,456	57.1%	38.2%	3,798,493	996
1993	6,035	58.3%	2,943	102.2%	48.8%	7,291,913	1,208
1994	6,118	1.4%	3,345	13.6%	54.7%	7,305,208	1,194
1995	6,787	10.9%	3,345	0.0%	49.3%	10,240,705	1,509
1996	6,899	1.6%	3,667	9.6%	53.2%	11,069,006	1,605
1997	7,864	14.0%	5,234	42.7%	66.6%	14,075,553	1,790
1998	10,827	37.7%	7,793	48.9%	72.0%	20,068,676	1,854
1999	12,998	20.0%	10,409	33.6%	80.1%	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 economization 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)	Central level			
	Regional level			
	District level			
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	×	(Case 1) Main body store (Case 2) Entrust to BIL 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

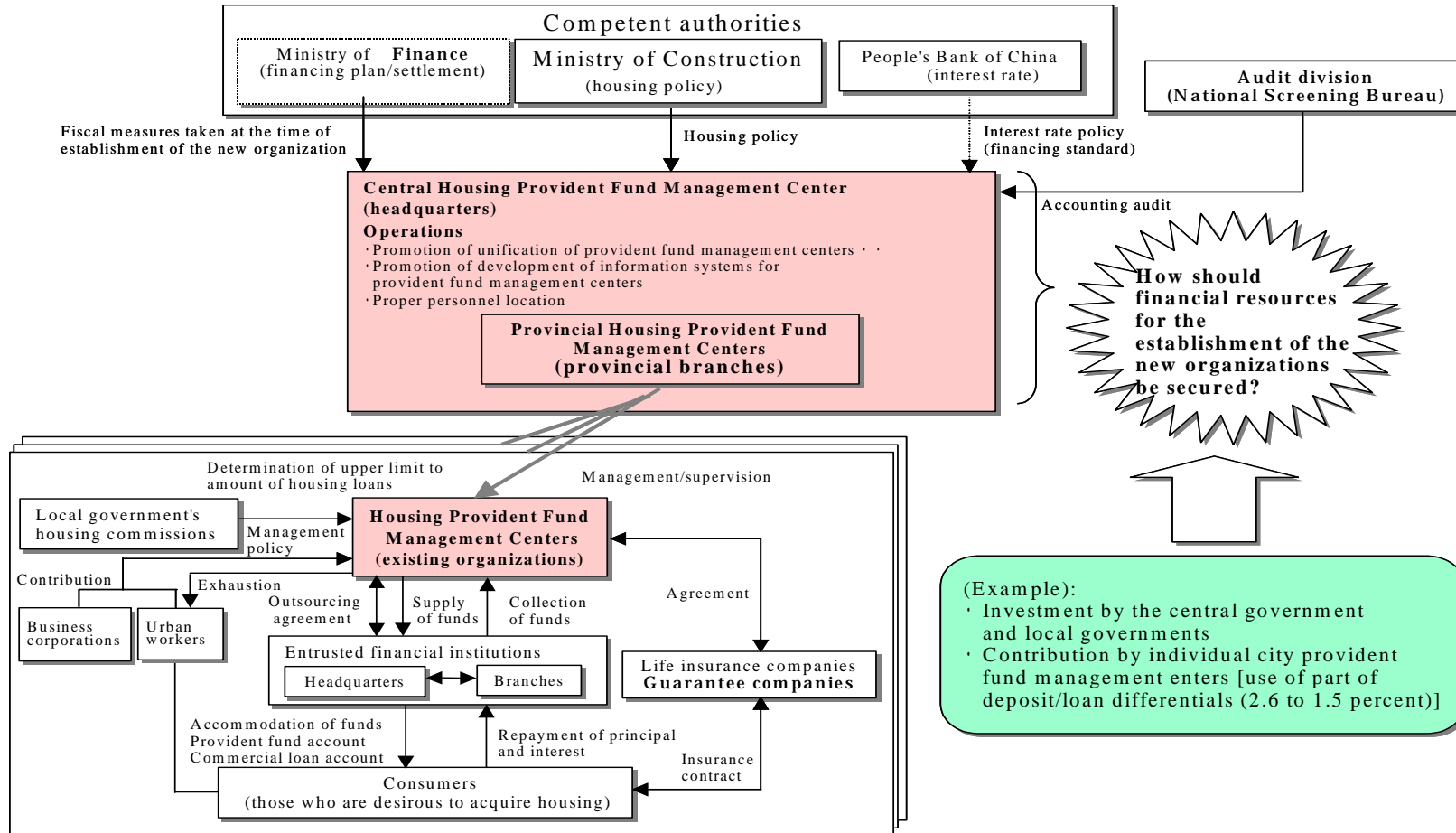
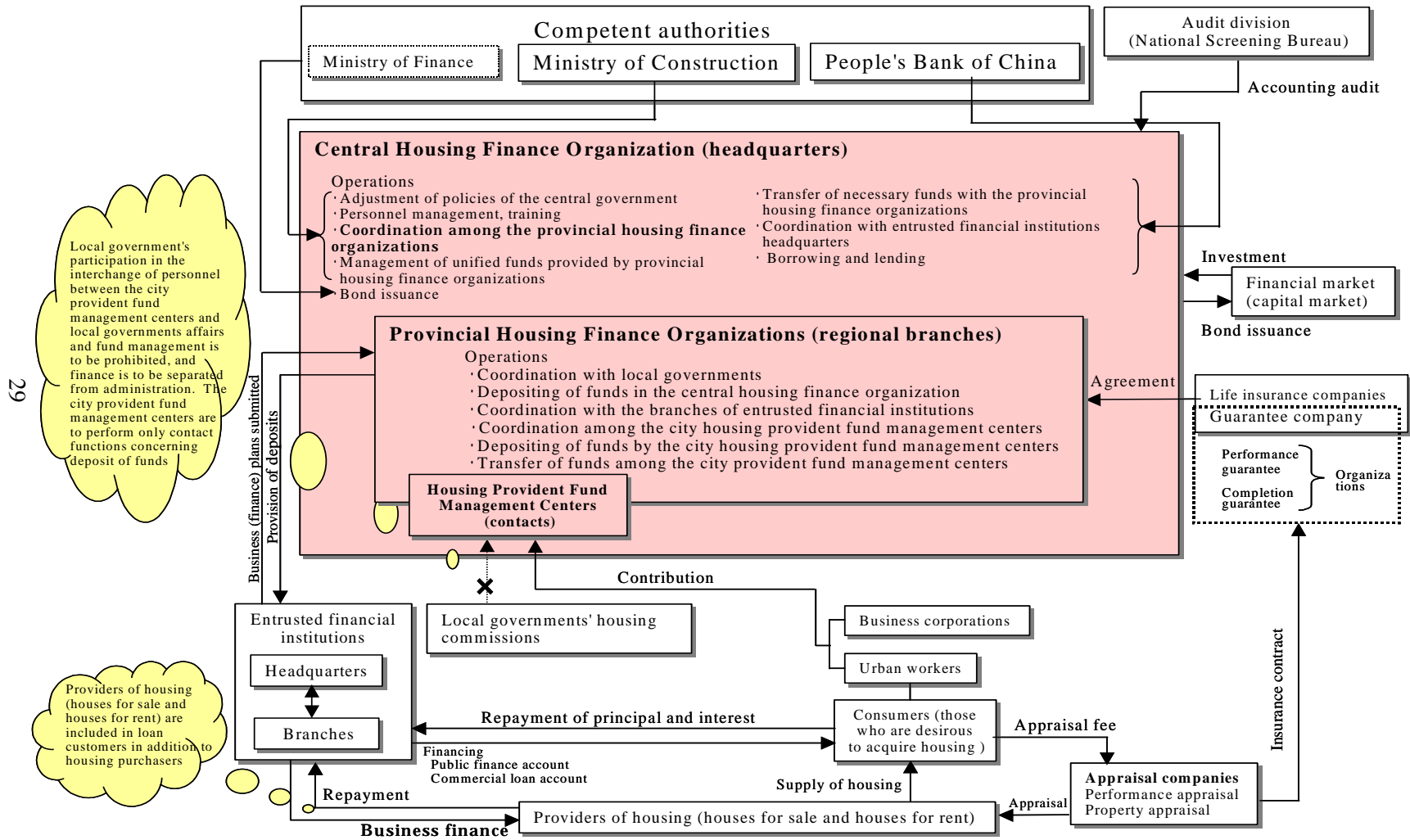


Figure 2-3 Image of Systematized Finance

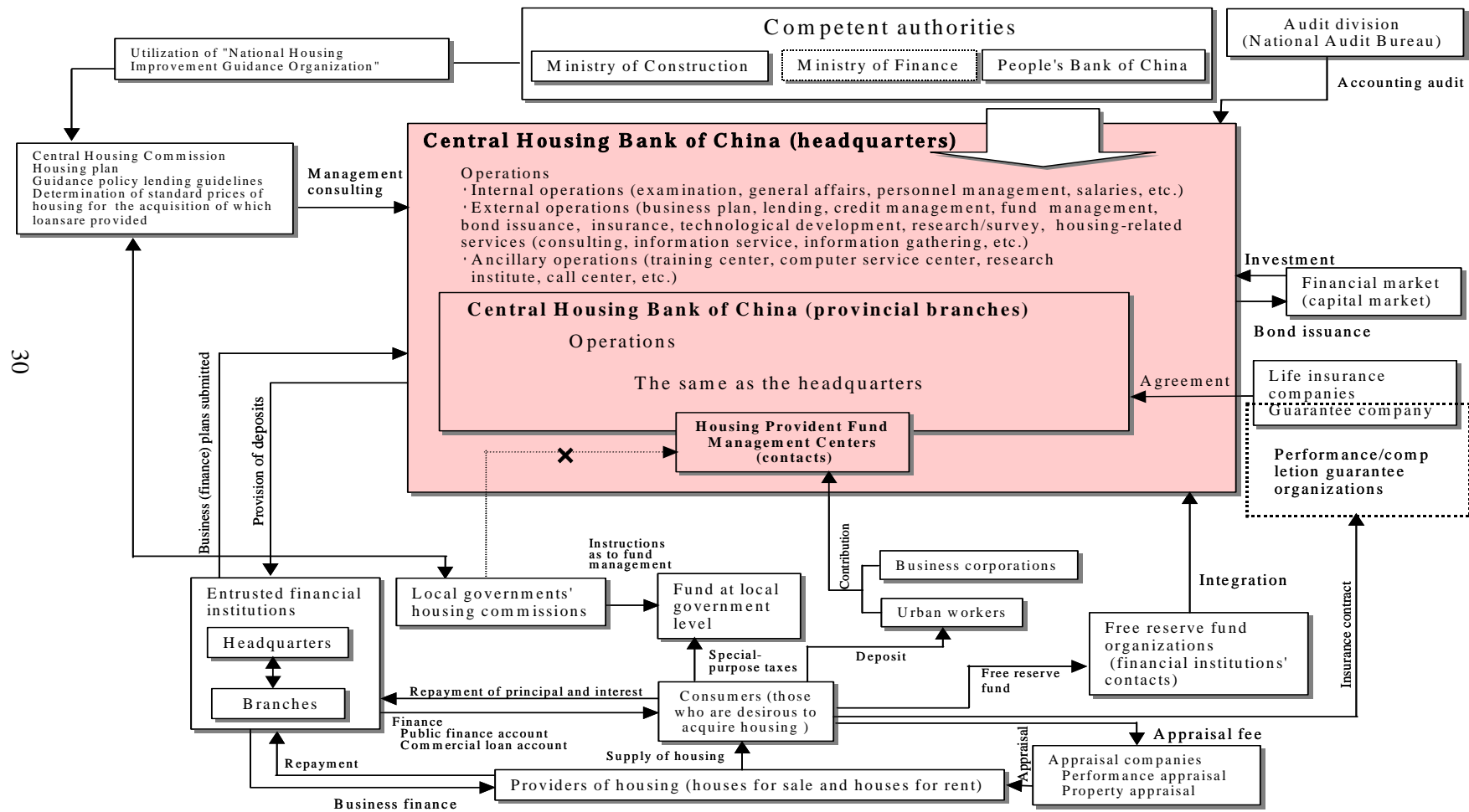


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Local government's participation in the interchange of personnel between the city provident fund management centers and local governments affairs and fund management is to be prohibited, and finance is to be separated from administration. The city provident fund management centers are to perform only contact functions concerning deposit of funds

Providers of housing (houses for sale and houses for rent) are included in loan customers in addition to housing purchasers

Figure 2-4 Image of Guidance Policy Housing Finance Organization



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(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.

3. Direction of Reform of Private Housing Finance System

3.1. Expansion of Housing Finance and Tasks of Private Commercial Finance

3.1.1. Current Status of Housing Loans

(1) Increasing Housing Loans

Housing loans by the state commercial banks have shown a significant increase since 1998. At the end of October 2001, the housing loan balance at Industrial and Commercial Bank of China (ICBC) was 4.02 times that at the end of December 1998. The multiple was 5.16 for Agricultural Bank of China (ABC), 2.67 for Bank of China (BOC), and 3.57 for China Construction Bank (CCB). Put together, the balance for the four banks increased 3.84 times in approximately three years. The sharp increase is due to the following reasons according to personnel at People's Bank of China (PBC), the central bank, and other banks:

- 1) The needs for purchasing private individual housing increased as a result of reform of the housing system, and the finance demand increased sharply.
- 2) Banks are aggressively expanding personal housing loan business, because portion of loan assets for individual borrowers is still small and asset quality is good.

(2) Rapid Increase of Personal Housing Loans

Housing loans, personal housing loans in particular, are increasing. Personal housing loans increased 10.84 times during the period of December 1998 through October 2001 for ICBC, 11.97 times for ABC, 2.57 times for BOC, and 6.98 times for CCB.

According to officials, the reasons why personal housing loans are increasing, in addition to those listed above, are as follows:

- 1) Banks are actively reinforcing personal housing loan business, and
- 2) Banks are particularly eager to make personal housing loans at the branch level because profit-earning performance is relatively high.

(3) Current Status of Loans for Development Projects

The four banks seem to have different strategies toward development loans in housing-related loans. While ICBC has been steadily increasing development loans, ABC has at one point increased development loans, and at another point decreased them. BOC has slightly increased the amount of development loans. On the other hand, CCB has decreased the amount. ICBC has succeeded in expanding development loans because the bank has

employed a new loan method. In this new method, ICBC selects development properties, which helps the bank to establish relationships with individual borrowers, through financing developers. ICBC has been able to obtain good borrowers by finding solid development projects.

3.1.2. Lending Management by Private Housing Loan Institutions

(1) Screening of loan application

There are two types of screening set forth in the PBC regulations, screening for corporate borrowers, and screening for individual borrowers. Screening for corporate borrowers consist mainly of the analysis of financial standings. Since corporate loans tend to be a large sum, and the loan period is long, screening is stricter and the PBC regulations are more stringent compared to personal loans.

(2) Assessing personal credit information

Screening for personal loans is conducted based on various criteria, such as a debtor's identification, repayment abilities, a mortgage, and confirmation of guarantee. Among these criteria, screening based on a debtor's identification is believed to be the most valid

(3) Personal credit information system ("Shanghai Credit Information Corporation")

Developing and utilizing personal credit information system is important in the assessment of personal credit.

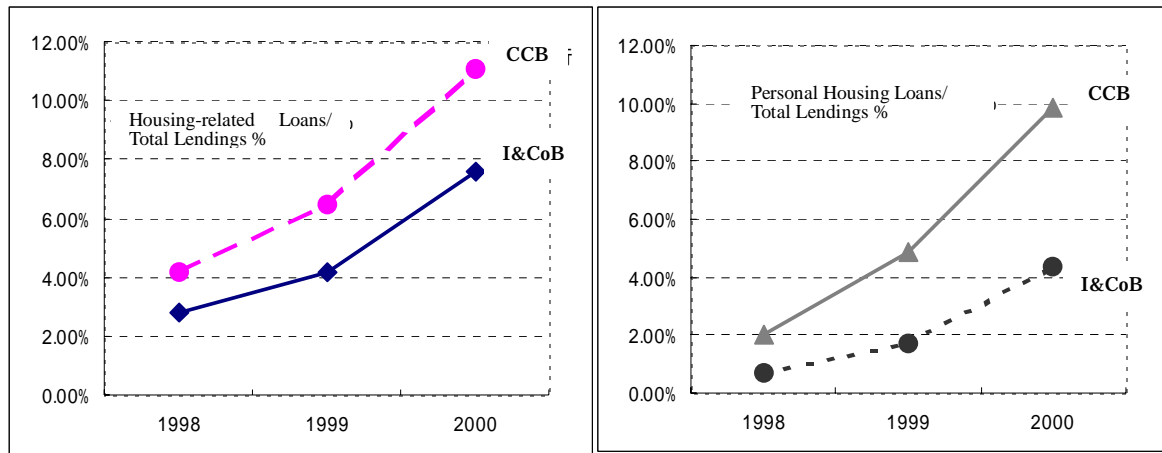
Shanghai Credit Information Corporation is a pioneer in this field. The company launched inter-bank credit information reference system for banks in Shanghai district in June 2000. The system stores personal credit reference data excerpted and selected from personal spending accounts and credit card application forms. Shanghai Credit Information Corporation plans to complete a comprehensive evaluation system of personal credit history before the end of 2001.

3.1.3. Housing Finance and Management of Banks

(1) Change in Asset Structure

The borrowers from commercial banks were predominantly state enterprises. Asset and liability management (ALM) is therefore particularly associated with state enterprises. Recently, increase in housing-related loans, personal housing loans in particular, is going to change the asset structure of commercial banks. This is particularly true of ICBC and CCB.

Figure 3-1 Changes in Weight of Housing-related Lending in Two Banks, %



Source: prepared by NRI research group based on information from PBC

Change in asset structure at commercial banks caused by the increasing amount of housing-related loans, has an important effect on risk management at commercial banks. Unlike loans for state enterprises, the bank must ask for special mortgage guarantee (land use right) when making housing-related loans to corporations. Furthermore, the banks must assess the mortgage assets and prevent price fluctuation risk by setting up and operating a new system.

Personal housing loans will mainly be offered to salaried workers. Commercial banks must set up new procedures to grasp credibility of individuals, set mortgage guarantee, and recover loans. This incurs initial cost for newly participating banks, and additional cost for banks already engaged in loan business for corporations.

(2) Purpose of ALM Management

The core of ALM management at banks is management of sensitivity to interest rate, or analysis and management of difference between fund lending and borrowing period, between fixed rate assets and debts, or between floating rate assets and debts.

The ALM analysis is also called “gap analysis”. Increase in housing-related loans including personal housing loans will increase floating rate assets. If the market interest rate rises, the asset and debt structure with the higher ratio for fixed rate debts (positive gap for fixed rate debts) is more favorable for the bank.

(3) Ratio of Net Worth in a Bank

In the early 1980s, net worth ratio of state commercial banks (former four big commercial banks) was approximately 20%. Since then, the net worth ratio steadily fell because the capital did not increase as fast as the total assets did.

The net worth ratio continues to be low for the most recent three years at ICBC and CCB.

(4) Risk Weight of Loan Assets at Banks

As known well, risk weight of loan assets at banks is not uniform. Fair assessment is impossible if individual banks determine risk weight arbitrarily. The Basel Committee on Banking Supervision set the standard of 0% for loans for domestic public sections, 20% for loans for other banks, 50% for housing mortgage loans, and 100% for other loans.

At ICBC and CCB, loans for public departments (including the central bank) and for other banks with a relatively low risk weight account for approximately 20% of all loans while loans with 100% risk weight (including other loans) occupy approximately 80%. Approximately 80 to 90% of debts at these two banks are savings. With ICBC, approximately 40 to 50% or more of debts are short-term savings. Both banks have a low percentage for debenture issuance (bank debenture) or long-term borrowings.

At ICBC, the weight for long-term lending is increasing, generating a sign of unbalance in terms of maturity. The loan asset structure of CCB is stable. Both banks do not publicize housing mortgage loans included in total loans in their statistics, but the risk weight of loan assets at both banks must be decreasing because, as mentioned above, the weight of housing-related loans is increasing particularly at these two banks.

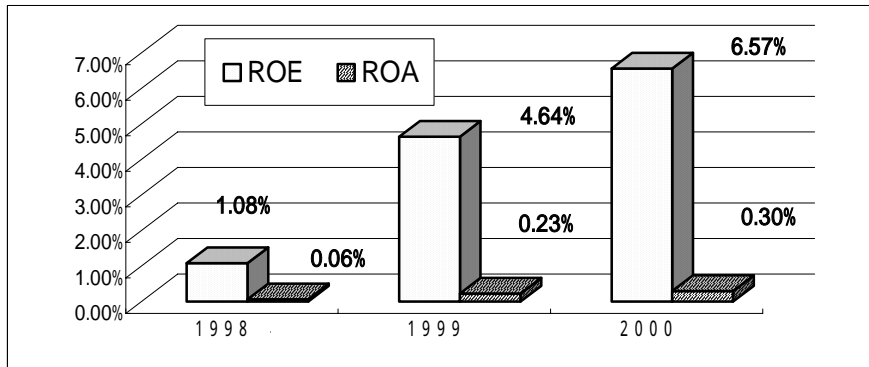
The balance sheet of ICBC and CCB shows a sign, though small, of credits getting longer and debts getting shorter-term. Even if risk weight sees improvement, hazard of financial crisis triggered by deposit withdrawal still exist unless issues in fund raising structure are solved. In order to avoid this risk, a measure to prolong fund raising as long as possible in accordance with investment period, should be introduced.

(5) Cost Management at Commercial Banks

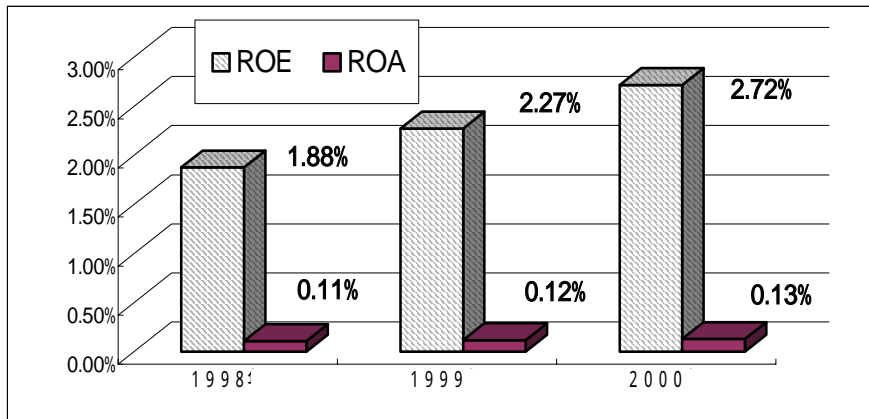
Return on assets (ROA) and return on equity (ROE) are efficiency indices for funds invested by a bank. These two indexes can also be interpreted as indicators of each bank's profitability.

Figure 3-2 ROA and ROE in 2 Banks, I&CBoC and CCB

Industrial and Commercial Bank of China



China Construction Bank



Source: JICA Study Team, based on Applicable Financial Yearbooks and Each Bank's Web Site

3.1.4. Expansion of Housing Loans and Necessity for Risk/Cost Management

Personal and other housing loans have increased at ICBC, ABC, BOC, and CCB since 1997 at faster pace than in public housing finance (HPF loans). Private-sector housing finance will surely be an important factor in housing finance. Ratio of housing-related loans in the banks' total amount of loans has been rapidly expanding. In the future the ratio could be as high as 15%.

Unlike corporate loans, housing loans are haunted by risk-related problems such as grasping of personal credit information, security of mortgage guarantee, assessment of collaterals, measures to cope with variable price of collaterals, personal credit examination, and examination of mortgage guarantee. Efficiency of office work can also be problematic because of a large number of small-amount loan cases.

These problems that are unique to housing finance, get more serious as the housing market expands. There are two problems; one is risk management and credit protection, and the other cost management and profitability at banks.

In market economy countries, to effectively use the direct financial market typically represented by stocks and debentures in a country shifting from a planned economy to a socialist market economy, the enterprises raising funds must sensitively react to the change in market such as interest rate. A market system with accurate information and transparent trading must be established.

In China, enterprises, state enterprises in particular, are not fully reacting to the change in the financial market. The capital market is still very much speculative because of information asymmetry. Considering this situation, indirect finance, or a bank-based financial system must play the major role.

In housing finance also, banking system will have to play a central role and therefore, immediate solutions have to be developed for issues in risk management and cost management.

3.2. Basic Direction of Reform of Private-sector Housing Finance and Action to Be Taken

3.2.1. Risk Management and Credit Protection

To make profits, banks must operate the funds collected from depositors while protecting them against interest rate and exchange risk, and default of enterprises and individuals (credit risk management). That is, banking is a risk business, and risk management is most important. Banks can collect deposits from individuals and lend funds to enterprises because they are able to manage risk and mediate between fund owners and users balancing the risk. Risk management is very important, and credit risk and market risk are inherent to banking.

- Credit risk: Loans may not be recovered because of loanees' insolvency or financial difficulties, bankrupt individuals, etc.
- Market risk: Profit fluctuation risk due to changes in interest rate or exchange rate, and ALM mismatch risk that maturity of deposits does not coincide with the loan period.

Credit risk accounts for 50 to 60% of all risk of a bank. Market risk is said to occupy 20 to 30%.

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

banks' deposit-loan spread has been decreasing because corporate fund raising methods are more diversified, and 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.

Commercial banks are trying to improve their risk management and credit protection at each phase of personal credit investigation and bank loan examination in the overall loan processing system. The more experiences commercial banks gain, the stronger their risk management and credit protection functions will be. In contrast, security of mortgage guarantee and recovery of arrears are not yet established as a system. Currently, the personal housing loan fault rate is low and no serious problems are presented. When housing-related loans increase in the future, the fault rate may rise. It is urgently required to establish an institutional security system and other security insurance system.

The Japanese commercial banks have many years' experience in loan examination. Specifically, experience in internal control, double check, asset assessment, and confirmation of mortgage guarantee can provide useful information.

3.2.2. Cost Management

The deposit-loan interest rate spread for personal housing loan is approximately 1% , which is not high. In addition, the ratio of operating expenses to operating revenues is increasing recently. Standardization of procedures and documentation and establishment of information systems are necessary to strengthen cost management for housing loan-related business. If this is not followed, bank management will be at stake. Following WTO membership, foreign financial institutions strong at retrial will enter the Chinese market. An internationally competitive cost management system is desired.

3.2.3. Reinforcement of Management Potential

The fault rate will rise to cut profits unless a security insurance system is established; clerical work standardized; and information systems networked. Without these measures, banks may find it difficult to expand the personal housing loan business.

To expand the personal housing loan business, a bank must have a physical strength to dispose of bad debts while keeping earning power. Current state-owned commercial banks lack owned capital and must either increase capital or increase liquidity by selling credits. These banks are now striving to meet basic conditions for converting into joint-stock corporations, (for example by increasing profitability and improving internal management

structure.)

3.2.4. Reinforcement of Personal Housing Loan Management: Housing Loan Management by Japanese Commercial Banks

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 improvement of service through product diversification.

A fierce competition has always existed in Japanese commercial banking industry. Consequently, there are a number of aspects in Japanese commercial banks' housing loans that Chinese counterparts can learn from. Below, reinforcement measures for personal housing loan management and customer services by major Japanese commercial banks are discussed as an example. The banks reviewed are: Bank of Tokyo-Mitsubishi, Sumitomo Mitsui Banking Corporation, Sanwa Bank and Dai-ichi Kangyo Bank. (Please see each relevant chapter for the detail).

In order to be qualified for housing loans by most of these four banks, applicants have to be 20 years old and above. Loan periods are set so that borrowers will be 70 years old or below when they pay off the loans. All the banks require borrowers to take out a group credit life insurance. Group credit life insurance is designed to insure loan principals. Financial institutions are insurance policy purchasers/beneficiaries and thus pay premiums, while borrowers are insurants. In principle, loans are given for purchasing new and existing houses that borrowers plan to live. Loans are also available for refurbishments. Loans are given to lands as well, if purchased for building houses.

Minimum amount of loans is JPY100,000 while maximum amount is JPY100,000,000 at all the banks. Yet, three out of the four banks set loan limit at under JPY50,000,000. In all banks, minimum unit of loans is JPY100,000. Loan period is between 1 year and 35 years in general. Two banks set minimum loan period as one month, while others set one year.

Japanese commercial banks are also very creative in designing various interest rate options. One bank allows borrowers to switch among fix rate, capped variable rate, and variable rate, as many times as they desire. Other bank offers variable rate, fixed rate, and hybrid rate (mixture of variable and designated fixed rates). In one bank's hybrid rate, borrowers can divide their loans into several portions and select a specific type of interest rate for each portion. An initial fixed payment period is 3, 5, 10 years, 2, 3, 5, 10 years, or 2, 3, 5, 7, 10 years. An initial payment period for capped variable rate is 5 or 10 years at all banks.

All four banks allow equal monthly payments (principal and interest combined). Larger repayment from bonuses is defined within 50% of loan amount. Some banks allow

monthly principal only payments. Advanced payments are available at all banks, with fees. Percentage of annual repayment in annual income is 40% and below at some banks and 35% and below at others, for applicants with an annual income of JPY4 million and over.

Percentage of loan limit against housing prices is 80% for purchasing a house with land, 100% for building a new house (land is already purchased), 80% for a condominium, 80% for land. The primary mortgage deed is usually given to guaranty companies designated by the banks. In general, borrowers are required to take out a fire insurance designated by guaranty companies and to establish the right of pledge for these guaranty companies. Borrowers have to pay JPY30,000 per property as administration fee. Guaranty fee depends on loan amount, loan period and the ratio of repayment amount in annual income.

Examples of the unique loans given by the four banks are: housing-related expense loans, two-generation loans, and parents-kids relay loans. Some banks give as much as 200% of appraisal value of collateral, for refinancing and buying houses.

3.3. Establishment of a Credit Risk Management System - Reference to Examples in Japan

The most important task for banks is risk management. Credit risk management is particularly important. Of risk management systems of banks, credit risk management systems have been studied intensively in recent years but understanding is not yet sufficient. The real credit risk management system must cover all types of lending of a bank. Credit risk reportedly accounts for approximately 60% of all risk of a bank. It is strongly desired to establish a credit risk management system as soon as possible.

The Japanese financial institutions are suffering from large amount of bad loans after the economic bubble burst. All banks are earnestly tackling to establish effective risk management systems in recent years. It is beneficial to refer to these efforts in Japan. Risk management, credit risk management in particular, of Japan's four big financial groups is described below. The data is derived from the four banks' annual reports for the fiscal year 2001.

Bank groups are abbreviated as follows for readers' convenience: Mitsubishi Tokyo Group for Mitsubishi Tokyo Financial Group, Mizuho Group for Mizuho Financial Group, Sumitomo Mitsui for Sumitomo Mitsui Banking Corporation, Tokyo-Mitsubishi for Bank of Tokyo-Mitsubishi, Fuji for Fuji Bank, DIK for Dai-Ichi Kangyo Bank, Kogin for Industrial Bank of Japan, Sanwa for Sanwa Bank, and Tokai for Tokai Bank.

3.3.1. Credit Rating System

Mitsubishi Tokyo Group uses the unified credit rating system throughout the group members for appropriate adequate reserves for doubtful accounts and make necessary write-off. In credit rating, a default rate corresponding to respective rating stage is benchmarked.

At Mizuho Group, the credit rating system is an important credit risk management infrastructure. At DIK, all borrowers are rated to a 15-stage credit rating table in principle. All assets are evaluated for credit risk using a uniform method.

The corporate examination technique employed by Kogin is based on comprehensive analysis and assessment of industry trend and actual condition of not only finance but also management of a business.

The Sumitomo Mitsui internal rating system comprises Debtor Rating that shows by indices certainty of payment by debtors and Case Rating that shows by indices certainty of credit recovery.

Sanwa assesses the financial state of an account from three viewpoints of safety, profitability, and cash flow. The objective credit rating procedure uses 10 (16 with additions) rating stages. The rating procedure is reviewed yearly to reflect the condition of the debtors.

The credit rating technique used at Tokai is a combination of qualitative and quantitative analysis to ensure objectivity.

3.3.2. Management System

Mitsubishi Tokyo Group operates three departments to manage overall risk, credit risk, and market risk, respectively. General Risk Management Committee meets once every 3 months. At Tokyo-Mitsubishi, General Risk Management Office is responsible for risk at large and manages all types of risk comprehensively. Standing committees include Risk Management Committee, ALM Committee, Investment and Loan Committee, and Information Security Management Committee. Within the framework of the Tokyo-Mitsubishi risk management system, marketing and examination are separated from each other at all business divisions so that both departments mutually exert their “check and balance” function. Loan Planning Office is responsible for examination and credit granting throughout the bank to ensure rationalization and enhanced efficiency in loan granting process.

Portfolio Management Committee at Mizuho Group is a management and policy committee responsible for credit risk management. General Risk Management Department and Credit Granting and Planning Department jointly plan and execute basic matters related to credit risk management.

At Fuji, the general risk management policy is discussed in semi-annual Risk Management Meeting. Monthly management meetings follow up the decisions of the semi-annual meeting. Chief Risk Officer (CRO) is a detached and independent officer from profit making departments, exerting a strong checking function. Credit Risk Management Committee at DIK discusses problems related to credit granting and credit risk management, taking necessary action as required for the entire bank. The risk management officer chairs the committee. At Kogin, Examination Department and General Risk Management Department, independent from marketing divisions, cooperate with each other to manage credit risk across the organization. At Sumitomo Mitsui, General Risk Management Department is independent from other business departments. It manages risk in general systematically and in broad perspective in cooperation with Management and Planning Department.

At UFJ Group, the executive officer for the risk management unit recognizes, grasps, and adequately manages risk existent in the group individually and generally. At Tokai, General Management Division manages risk for the entire company. The Division consists of Risk Management, Loan Management, Clerical Work Management, and System Control Department.

3.3.3. Credit Risk Metrics

Mitsubishi Tokyo Group is currently collecting past performance data from group companies for the purpose of credit risk metrics. Tokyo-Mitsubishi collects default data by credit rating and recovery performance data by type of mortgage. The data are used for risk computation based on internal data.

At Fuji, credit granted for each account and real credit granted considering the value of mortgage (are grasped on the daily base) to metrize expected average loss (= credit cost) for the next 12 months and the maximum allowed excess (= credit risk volume) above the expected average loss. DIK analyzes profitability and risk level distribution for each loan considering cost of nonperforming loans. Using the result, they establish practical measures to enhance risk/return and strengthen portfolio management.

At Sumitomo Mitsui, data are collected by debtor and credit granted to develop and expand the database. They analyze probability distribution for possible losses in the entire portfolio (how much loss with what probability) using rating transition probability, recovery rate, and other parameters. This enables them to foresee the degree of possible loss.

Sanwa derives default rates by rating using the past financial data of borrowers. Simulation is used to find distribution of future losses in the portfolio.

3.3.4. Portfolio Management

Mizuho Group focuses on the portfolio in credit risk management. They estimate possibility of bad debt loss occurring from the credit portfolio using a statistical method. The resultant metrics are expected average annual loss (= credit cost) for the next 12 months and the maximum possible excess (= credit risk volume) above the expected average loss. Fuji classifies portfolios by business type, area, internal rating, large credit account, etc. to monitor and analyze the portfolios regularly. They make sure that the existent credit risk is strictly under control. At Kogin, biased credit granting to certain business groups, industries, or areas is effectively adjusted using credit risk control techniques and metric approaches. This assists in proposal of an adequate portfolio.

At UFJ Group, credit limit and credit limited business types are defined in the portfolio management to exclude the risk that loans are excessively concentrated on certain accounts, business type, area, or otherwise similar categories of business. This is effective for distributing credit risk.

3.3.5. Capital Appropriation System (Allocation of Risk Capital, Management by Risk Capital)

Mitsubishi Tokyo Group operates the capital appropriation system to conduct high-level risk management in conformity with revenue target and marketing strategies. With this system, various types of risk are calculated using standard scales to define economy capital. The economy capital is then, within the range of owned capital, appropriated to various segments by affiliate, risk, business type, etc. Mizuho Group allocates risk capital (resources are owned capital, etc.) to various business units and the business units carry on activities within the allocated risk capital.

Fuji also appropriates risk capital. Sumitomo Mitsui has introduced a system called management by risk capital. In this system, capital is effectively distributed according to marketing strategies within the physical managerial strength (owned capital).

3.3.6. Rules and Manuals

Fuji maintains the Basics and Codes for Credit Granting Procedures. All staffs engaged in credit granting business share the rules to ensure universal credit granting stance and secure soundness of loan assets.

DIK established the basic credit risk management policy called Basic Policy for

Credit Risk Management in 1999. They also developed Credit Granting Portfolio Management Rules.

Sumitomo Mitsui developed Risk Management Rules covering all basic rules to be observed in risk management. They furthermore established Credit Policy when they started as a new bank in 2001. UFJ Group operates Credit Risk Management Rules, based on which individual affiliate banks prepare various rules, standards, and bylaws for estimating credit risk in consideration of credit rating, country rating, credit risk metrics, and self assessment. Sanwa ensures adequacy of risk management by deciding on a series of risk management rules including Risk Management Basic Rules at the board of directors and operating and reviewing them regularly.

4. Fundamental Policy to Establish a Mortgage/Guarantee System

4.1. Necessity to Build the Mortgage/Guarantee System

4.1.1. Objective of the Mortgage/Guarantee System

Establishing a housing finance-related guarantee system in China has three major purposes:

- 1) To complement the credit of housing finance users as a type of the settled social systems significantly influential over the people's living. In this sense, the security system would lead to the construction of a credit system in the future for all over the Chinese society, especially directly to an improvement of personal credit.
- 2) To positively support those who desire a housing finance, especially among the medium-/low-earning strata. In this sense, the security system would turn out as the footing to support the wholesomeness of housing promotion and housing finance systems in the future of China. At the same time, it will back up a smooth implementation governmental long-term housing policies.
- 3) To support those housing finance users, who have really encountered with difficulties in refunding their loans. In this system, the security system does not contribute only to the safety and stability of personal living but also to the stability of all over the society.

4.1.2. Necessity to Build the Mortgage/Guarantee System

- 1) It may be safely said that China has not yet built up the housing finance mortgage guarantee system to date. Judging from the managerial status of each existing guarantee organization, an inauguration of housing finance guarantee services have had an obviously positive impact on the expansion of housing finance and of housing promotion. Nevertheless, some problems have been being actualized anyway, including a level-off of guarantee services in some cities, a more and more incremental pressure of risks, a poor supervisory management on housing finance guarantees and a future shortage for finance guarantee specialists, coupled with an extension of the housing finance guarantee services in the future.
- 2) There is a principle of safety as one of the basic rules for a banking institution to offer a loan. To this end, the bank investigate a loanee for credit. At the same time, they usually take credit preservation measures, such as mortgage, guarantee, insurance, etc.

Housing loans, in particular, involve a large amount of money and a long term for personal financing. Consequently, credit investigations and credit preservation measures are of great importance.

- 3) It is not limited to China only that those challenges imported on a guarantee system are how to maximize those willing to purchase housing while minimizing the risks of both individuals and banking institutions. To this end, it is essentially necessary to construct a guarantee system as tailored to the character of a real loan-user stratum and to set up a corresponding guarantee organization, including the buildup of an appropriate risk management system/techniques.
- 4) In China, furthermore, housing is expensive for income in general. With this actual situation taken into account, it is likely that a large amount of borrowings would lead to an excessive burden on making a monthly refund. With a credit rating system implemented in housing loanees, a refunding term should be set longer to reduce the monthly refund amount so that medium-low-income strata may obtain housing with ease. Thus, it is called upon to operate the system in a combination of loans and credit complements.

4.2. Direction in which Mortgage/Guarantee System be Established

4.2.1. Constructing Mortgage/Guarantee System

(1) Introducing Credit-Complimenting Mechanisms:

Existing national affairs and changing social environments in China make it very difficult for loan users to give surety for their loans. For a banking institution, housing finance is a long-term lending to an individual person. To examine the credit of a loanee and to control its mortgage, it is necessary to have the basic know-how different from that required for a conventional entrepreneurial finance. And wariness is essential to a possible growth of risks, coupled with an expansion of finance. From a housing loan user's point of view, on the other hand, failure to smoothly take an appropriate guarantee means makes financing itself difficult, thereby forcing the loan user to give up the obtainment of housing. This will surely have a directly harmful impact on the housing promotion policy all over the China.

To break through such bottleneck, it is considered as a significant course of designing the system to introduce the credit-complementing mechanisms on an agency-guarantee basis rather than on a personal surety guarantee basis. Considering that the credit compliment service itself has an inside-outside relation with the loan service, it is essentially necessary that a loan should act integrally with a credit preservation. The guarantee service has turned out to

be a type of financial services. And a mortgage guarantee agency is also called upon to have a function of financing.

(2) Introducing Governmental/Private Role-sharing Mechanisms:

It may be safely said that the rate of default in China will inevitably increase from now on, coupled with an expansion of housing loan users in this country. Public and private housing finances should cover their respectively different users while having political targets different to each other. Thus, both public and private banking institutions should complement their roles to each other, thereby forming the mechanisms for an overall housing finance system. In the mortgage/guarantee system, likewise, it is important to build up the public and private guarantee systems at the same time. And it may be safely said that an implementation of the mechanisms to have roles shared by and between governmental and private sectors would be indispensable for the stages of constructing the system.

The public guarantee system should play two roles as part of the public housing finance system: one is to expand housing loan users and the other to have a policy-oriented guide supported by a housing-acquisition behavior. To this end, the public guarantee organization's services should cover policy-oriented housing finance, first. In other words, the services should those loanees and loan properties, which would lead to an implementation of housing policies. Coupled with this, it is necessary for a public guarantee organization to make a more careful risk management than a private guarantee organization. With consideration given to the character of those to be guaranteed, however, it is necessary to minimize the guarantee cost all the more. It may be considered as mission of a public guarantee organization to be able to offer more favorable and convenient services for users through an optimum risk management and an optimum cost control.

(3) Introducing the Mechanisms to Combine a Traversal Service Scheme with an Intensive Supervisory Control System

China has such national conditions as a broad national territory and a significant difference from region to region in level of economy, industrial structure and financial services. Approximately one hundred guarantee organizations have been already established in China on the principle that every city should have at least one guarantee organization. Except for a few cases in individual cities, however, the existing guarantee organizations are mostly small-sized without lateral tie-ups.

From a risk management point of view, there are high possibilities that any scale merit could be implemented because the existing guarantee organizations are independently arranged in parallel from city to city or from region to region. This involves a fear that a guarantee

organization may have its functions completely broken down for lack of flexibility in the event of a real default, especially those defaults which may have concentratedly taken place temporarily due to a change in the industrial structure of a specific region.

To construct a nationwide guarantee system, it is a very effective means to install a nationwide deployment type guarantee organization having a certain level of size from the very beginning as tailored to the realities of each region so that a scale merit may be most effectively used while reducing risks to the minimum. At the same time, it is also a useful measure for a competent governmental organ to conduct on an intensively supervisory management to reduce a total of risks to the minimum.

(4) Introducing a Re-guarantee Mechanism while Striving to Diversify Risks

It may be safely said that risk management takes a nucleic position in guarantee services. To positively diversify risks and to preserve credits, it is necessary to taken into account the introduction of a re-guarantee mechanism in addition to the pursuit for mortgage/guarantee.

Generally, it is a re-guarantee mechanism to diversify personal and proprietary risks by buying a specific-purpose insurance.

It should take a basic stance that a public guarantee organization, in particular, links with a policy-oriented finance function to render guarantee services to the medium- and small-come strata. It could be supposed, therefore, that the public guarantee organization may take a higher level of risks than a private guarantee organization. It may be considered especially important, therefore, to provide a re-guarantee mechanism for diversification of risks from the system design stages.

4.2.2. Building up Mortgage/Guarantee System Infrastructure

To construct a mortgage/guarantee system, it is indispensably necessary to build up the system infrastructure, that is, to provide those conditions that would permit the system to perform its functions fully.

- (1) As nucleus of the system infrastructure, it is necessary, first of all, to build up the legislative architecture relating to obligatory and proprietary rights, claims for damages, auction, credit management and recovery. China has already obtained a WTO membership. In preparation for a more and more severely competitive environment with foreign capitals making inroads in the future, coupled with the participation in the WTO, it may be safely said that China is now urgently required to build up the legislative architecture.

- (2) To establish the personal credit determination criteria as well as to build up the relevant legislation, it is essentially necessary, first of all, to build up a credit information agency and to accumulate personal credit data. To make a database of this type, it is necessary to construct such a system that would allow both lending enterprises and their customers may enjoy the merits of such database. It is unnecessary, however, for a guarantee agency either to establish a credit information organization by itself or to construct a personal database. Rather, a similar purpose would be achievable by creating those mechanisms where the system owned by a banking institution is effectively usable. To this end, how to construct the information system and to make its effective use is of critical importance.
- (3) Guarantee services themselves, such as to confirm an obligatory right to be claimed or the like, are those operations which require some know-how. It will be necessary, therefore, to cultivate those specialists who are also skilled in collecting the credit. It is indispensable to tackle strategically and systematically the installation of a public agency to certify qualified people.
- (4) In relation to what is referred to above, it is essential to establish the training system where expertise and know-how may be learnt to cultivate human resources. In addition, it may be safely said that such a training system is being built up in linkage with a certification system.

4.3. Measures to Establish Mortgage/Guarantee System

4.3.1. Establishing Public Guarantee Organization

(1) Key Points in Constructing a Public Guarantee Organization

To set up a public guarantee organization, there are five essential and critical points as follows:

- 1) Make effective use of scale merits.
- 2) Grasp the causes of arrears and build up the measures to compress loans in arrears.
- 3) Set a guarantee fee and save an obligatory reserve fund.
- 4) Build up the specific measures to recover obligatory rights, including the related legislation.
- 5) Establish the legal position of a guarantee agency.

(2) Public Guarantee Organization Framework

As far as the framework of a public guarantee organization is concerned, its key

points are proposed as shown in a table below.

Table 4-1 The Framework of a Public Guarantee Organization

REQUIREMENTS	FUNDAMENTALS
Name (tentative)	Central Housing Guarantee Organization
Organization character	<ul style="list-style-type: none"> • Public service body • Non-taxable legal person • Financing line of business
Organization's service range	<ul style="list-style-type: none"> • Guarantee involved in housing loans, • Insurance services • Policy-oriented housing brokerage
Supervisory management scheme	<ul style="list-style-type: none"> • Joint competence by Ministries of Construction and of Finance, People's Republic of China, People's Bank of China • Ministry of Construction: guarantee system and supervisory management of policies • People's Bank of China: supervising and managing the guarantee-related consignment finance services • Ministry of Finance: To supervise and control budgetary appropriations and financial standings
Organizational structure	<ul style="list-style-type: none"> • Regional deployment type organization on a nationwide level basis • Central head office (1 location) ministerial level branch (one per ministry) municipal sales office (one per city)
Major functions of central head office	<ul style="list-style-type: none"> • Adjust the Central Government's policies in relation to the guarantee of policy-oriented loans. • Adjust the Central Government's policies in relation to the guarantee of general loans. • Adjust mortgage/guarantee-related systems and policies (performance evaluation, property assessment, performance guarantee, completion guarantee, etc.) • Arrange and cultivate human resources (staffing and training). • Make arrangements on an inter-organization basis at a ministerial level (human and monetary). • Make arrangements with the head office of a consignee banking institution or of a tied-up insurance company or the like. • Issue bonds and debentures.

REQUIREMENTS	FUNDAMENTALS
Main functions of sales offices at a municipal level	<ul style="list-style-type: none"> • Make arrangements with local governments (human and monetary). • Adjust the guarantee-related systems and policies of local type (within a ministerial range and in a neighboring province). • Make arrangements with the branches of a consignee banking institution and of a tied-up insurance company. • Make a risk management in a region (within a ministerial range) (risk reverse funds, credit recovery, etc.) • Cultivate human resources at a ministerial level (staffing and training). • Make arrangements on the basis of inter-municipal sales offices within the ministry.
Principal functions of sales offices at a municipal level	<ul style="list-style-type: none"> • Make arrangements with a municipal government. • Make arrangements with the window to a consignee banking institution and of a tied-up insurance company. • Control guarantee fees. • Collect the credit (control the obligees whose compensation demanded).
Fund raising	<ul style="list-style-type: none"> • Central and local financial standings (budgetary appropriations) • Contributed by a group of the Central Housing Bank of China (tentatively named) • Issue bonds and debentures (in case where requirements are satisfied) • Guarantee fees (maintenance expenses)
Risk Management Scheme	<ul style="list-style-type: none"> • Unify with loan services (standardize examination procedures.) • Totally operate guarantee fees. • Ministerial pool type risk reserve funds (to be financed in the event of concentrated defaults) • Directly control those obligees whose compensation should be demanded (non-service consignment type)
Service Consignment/Tie-up System	<ul style="list-style-type: none"> • Consign the window of a commercial bank with such services as examinations, guarantee fee collection, account management, etc. • Tie up with an insurance company to render re-guarantee services.

Source : JICA Study Team

4.3.2. Building up Commercial Bank-affiliated Guarantee Agencies

(1) Key Points in Constructing a Commercial Bank Guarantee Organization

The most critical key point for the private sector constructing an agency guarantee system is to build up the guarantee agency belonging to a commercial bank, that is, to build up a

guarantee organization affiliated with a commercial banks.

To build up a commercial bank-affiliated guarantee company, it is worthy of paying attention to the following requirements in addition to the five major ones already referred to when building up a public guarantee organization.:

- 1) Guarantee the housing loans offered by the parent bank as an affiliate with the banking institution.
- 2) Completely take over the examination and mortgage paperwork of the parent company.
- 3) Guarantee the default arising from an earthquake or any other disaster.
- 4) Permit the credit to be operated flexibly while making effective use of the relationships between parent and child companies.
- 5) Leave the room to undertake the guarantee of consumer finances in general rather than specializing in housing loans only.

(2) Framework of Commercial Bank-affiliated Guarantee Organization

The lending commercial banks in China (typically the so-called four major commercial banks, such as Industrial and Commercial Bank of China, China Construction Bank, etc.) have already had a certain size as nationwide deployment type banking institutions. A guarantee agency affiliated with a nationwide deployment type banking institution would be able to make fully effective use of scale merits available in the group (a parent bank and a guarantee agency as a subsidiary). And it will be also possible to construct shops with functions different as tailored to a regional level.

Building-up a commercial bank-affiliated guarantee organizations is really difficult for each commercial bank to tackle at the same time. It may be recommended, therefore, that the project should be inaugurated by the commercial bank that has had such needs and satisfied the requirements. In the future, moreover, it is likely that those banks which have a relatively small size without having advanced the nationwide deployment will build up a jointly affiliated guarantee agency as required, considering that it is impossible for them to build up their own affiliated guarantee agencies.

As far as the framework of a public guarantee organization is concerned, its key points are proposed as shown in a table below.

Table 4-2 Framework of Commercial Bank-affiliated Guarantee Organization

REQUIREMENTS	FUNDAMENTALS
Organization character	<ul style="list-style-type: none"> • Stock company • Taxable legal person • Financial line of business
Organization's service range	<ul style="list-style-type: none"> • Housing loan-related guarantee service • Miscellaneous guarantee/insurance service
Supervisory management scheme	<ul style="list-style-type: none"> • Lead taken by the People's Bank of China
Organizational structure	<ul style="list-style-type: none"> • Nationwide deployment type organization in an individual commercial bank and a federation of commercial banks • Central head office (1 location) ministerial level branch (one per ministry) municipal sales office (one per city) • Two or more affiliates are allowed to exist in an identical area.
Major functions of head office	<ul style="list-style-type: none"> • Make arrangements with the head office of a banking institution as parent company (e.g. head office of the four major commercial banks). • Make arrangements among affiliated guarantee agencies at a ministerial level (human and monetary). • Pool and adjust funds and risk reserves. • Arrange in place and cultivate human resources (staffing and training) • Issue bonds and debentures.
Major functions of branches at a ministerial level	<ul style="list-style-type: none"> • Make arrangements with the branches of a banking institution at a ministerial level. • Make arrangements with the window to a municipal affiliated guarantee agency. • Pool and adjust local funds and risk reserves. • Arrange in place and cultivate human resources (staffing and training)
Principal functions of sales offices at a municipal level	<ul style="list-style-type: none"> • Make arrangements with the counter of a banking institution at a municipal level. • Make arrangements with the window of a service-consignee bank. • Control guarantee fees. • Collect the credit.
Fund raising	<ul style="list-style-type: none"> • Contribute by a banking institution as parent company • Issue bonds and debentures (in case where requirements are satisfied) • Guarantee fees (maintenance expenses)
Risk management scheme	<ul style="list-style-type: none"> • Unify with loan services (standardize examination procedures.) • Operate guarantee fees totally among companies within the group. • Pool type risk reserve funds (to be financed in the event of concentrated defaults) • Do not specialize in housing loans only.
Service consignment/tie-up system	<ul style="list-style-type: none"> • Consign the window of a parent commercial bank with such services as examinations, guarantee fee collection, account management, etc. • Tie up with an insurance company or the like within the group.

Source: JICA Study Team

4.3.3. Building up Re-guarantee System

(1) Introducing Re-guarantee Insurance:

Owing to its nature, a housing loan has a long term before refunded. It is inevitable, therefore, that the default takes place at a certain percentage. It is necessary to stabilize the default rate (rate of loans in arrears) expected in the future, as a matter of course. The economic society, however, is always encountering structural changes, such as those in social and financial environments and on the labor market. Such a society is forced to take into account those risks which may take place in excess of the range (default rate) allowable in designing the guarantee system. It is essential to build up the re-guarantee system that could hedge such an abnormal risk difficult to predict.

Especially a public guarantee organization is in a position to play the roles of expanding a stratum of housing loan users and of supporting the political guidance involved in housing. Consequently, it may be assumed that the public guarantee organization may take a far more larger and unforeseeable risk, too. Nothing but the public guarantee organization must have established those mechanisms which would be sufficiently enduring against such an abnormal risk from the very beginning of system design stages.

A re-guarantee system design is not limited to one selection only. Nevertheless, the loan user has to bear a corresponding guarantee fee (insurance premium) finally. It should be made as a rule, therefore, to minimize the burden on users by suppressing a total amount of guarantee fees.

In the guarantee fees that loan users bear, an insurance may be separately bought for re-guarantee. With the realities of insurance in China taken into consideration, however, the scheme considered most efficient is likely to be interlocked with a collective life insurance, a non-life insurance or a so-called collective credit insurance. An insurance collectively handled would permit the insurance premium to be lower than usual.

Generally, it is a key point to create those mechanisms which will unify mortgage, guarantee and insurance, with a re-guarantee insurance introduced.

(2) Mechanisms of Collective Insurance for Re-guarantee

1) Personal Insurance

In preparation for such an unforeseeable event that an obligee has died or has been disabled at an advanced level, the personal insurance has a purpose of refunding a total of credit so that the loanee can secure its house and that the loaning institution may preserve the credit. Thus, risks are diversified into three parties: loan user, loaning institution and guarantee agency.

For mechanisms, the loan user signs an obligation compensation consignment contract (tentatively named) with a public guarantee agency in the form of a collective credit life insurance. With the guarantee agency acting as both policy holder and beneficiary, a collective credit life insurance contract is signed with a specified life insurance organization, while reckoning the loanee of a public banking institution as the insured. The insurance money paid by the life insurance organization is used by the guarantee agency to indemnify the balance of obligations on a blanket basis.

The insurance is undertaken jointly by the leading life insurance companies who have deployed their services at every part in China while the paperwork is being done region by region. Upon startup of the system, however, there are also possibilities that a single insurance company satisfying all requirements may be designed.

The insurance has a policy-oriented nature. It may be envisaged within a field of view, therefore, that the Government provides a financial support through a budgetary appropriation to organize a specific service department, to develop a lower-priced insurance article than usual and to deploy services, too.

2) Property Damage Insurance

If the property covered by a loan should be damaged by a fire, disaster or the like, the property damage insurance is intended to refund the obligations or to restore housing with the insurance money so that both banking institution and guarantee agency may conserve their credit.

Insurance services are rendered similarly to the personal insurance referred to above.

The insurance money payable covers a range of mainly fires, lighting, explosion, storm, flood and water leakage in the event of an accident in a feed/sewerage system. As far as the special damage due to an earthquake, volcanic eruption, high tide or the like is concerned, it is necessary to study whether or not such damage is covered by the insurance. As compared with the coverage of an ordinary insurance signed by an individual person with an insurance agency, the property damage insurance involved in housing should preferably expand a range payable.

3) Building up Re-guarantee Agency (developing a re-guarantee article)

The insurance agency that offers insurance services or insurance articles for re-guarantee to a public guarantee organization may be deemed to have a political function in a certain sense. With a financial allowable available, it may be envisaged to install a public insurance agency specializing in re-guarantee services only. The similar purpose, however, will be achievable if the footing and network of an existing insurance company are effectively used to develop a housing loan re-guarantee article

newly. In this case, it is necessary for the Government to provide a budgetary appropriation or a deregulation and the like to support a private insurance company sufficiently to cover such policy-oriented insurance article.

To select an insurance company, who offers a re-guarantee insurance services to a public guarantee organization, it is desirable that the insurance company should be capable of securing scale merits while being nationwide deployed similarly to the public guarantee organization.

For an image of the re-guarantee agency (services), the key points enumerated in a table below are proposed:

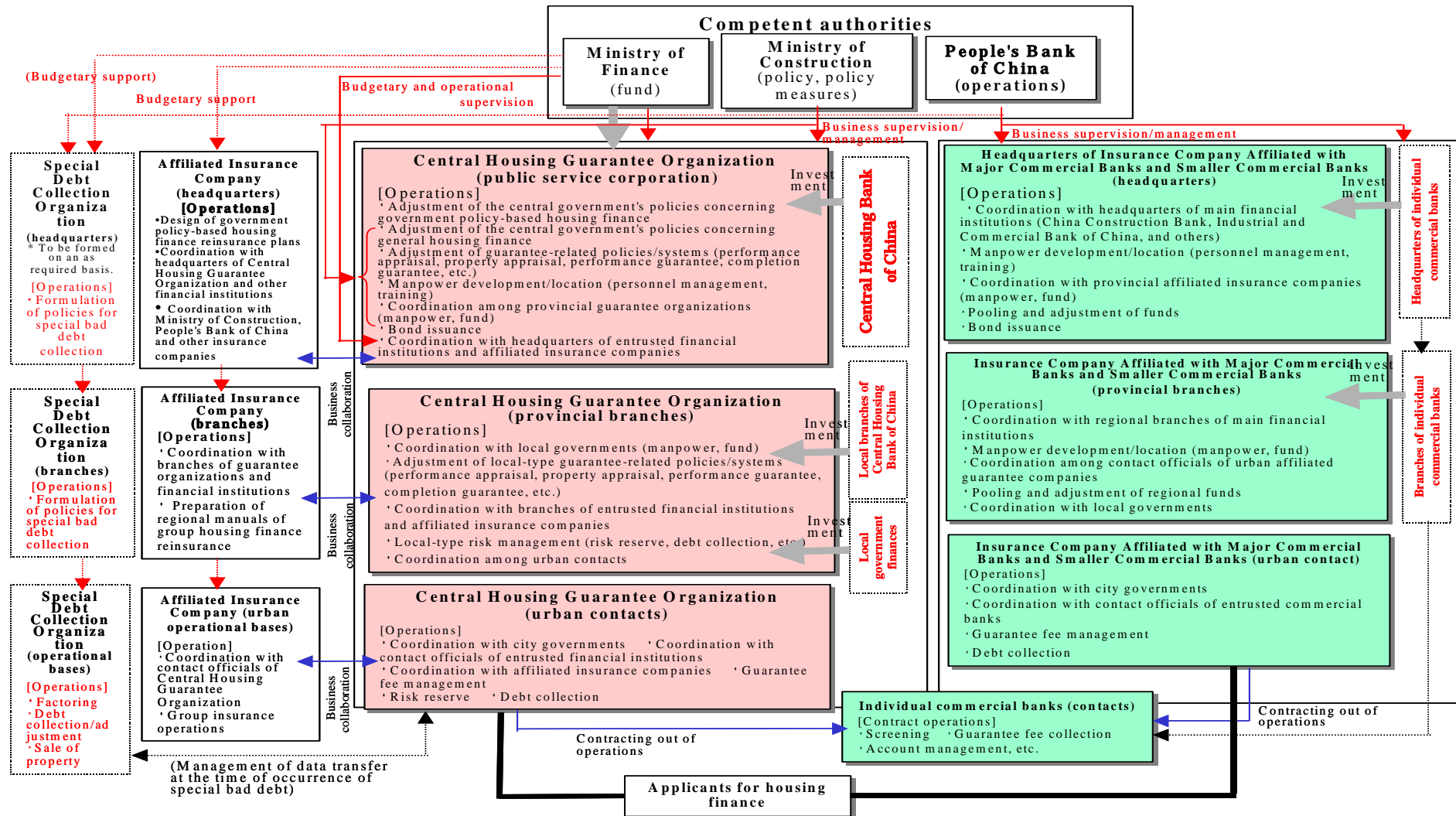
Table 4-3 An Image of The Re-guarantee Agency (services)

REQUIREMENTS	FUNDAMENTALS
Organization Character	<ul style="list-style-type: none"> • An independent public insurance agency or a specific public service department in general insurance companies
Organization's service range	<ul style="list-style-type: none"> • Insurance services, including a housing loan re-guarantee insurance
Supervisory management scheme	<ul style="list-style-type: none"> • A supervisory control department or financial department (to supervise public budgetary appropriations) in the insurance industry
Organizational structure	<ul style="list-style-type: none"> • A nationwide region deployment type organization (compatible with a public guarantee organization) • A system of one company per region, in principle
Major functions of head office (related departments)	<ul style="list-style-type: none"> • Design a housing loan re-guarantee insurance. • Make arrangements with the head offices of a public guarantee organization and of a banking institution. • Make arrangements with the Ministries of Construction and of Finance, People's Bank of China and an insurance business entity.
Major functions of branches at a ministerial level	<ul style="list-style-type: none"> • Make arrangements with the branches of a public guarantee organization and of a banking institution. • Prepare a regional manual relating to housing loan re-guarantee insurance. • Pool and totally operate insurance premiums.
Principal functions of sales offices at a municipal level	<ul style="list-style-type: none"> • Make arrangements with the window to a public guarantee organization. • Services on a collective insurance basis
Fund raising	<ul style="list-style-type: none"> • Invest in the body of an insurance company. • Partial financial support • Insurance premiums (maintenance expenses)

Source : JICA Study Team

4.3.4. Overall Image of Mortgage/guarantee System (Organization) involved in Housing Finance in China

Figure 4-1 Image of Guarantee System/Mechanism



Source: JICA Study Team

5. Direction in which Infrastructure Supporting Housing Finance-related Systems Reform should be Built up

5.1. Housing-related Information Systems and their Buildup Measures

5.1.1. Building up Housing Finance Information Systems

(1) Functions Required for Housing Finance Information System

1) Stages of Transfer from Existing System to Control Organization Type:

At present, there are approximately 2300 Provident Fund Management Centers (PFMCs), which are to be consolidated in the order of Municipal PFMCs Ministerial PFMCs Central PFMC. The Central PFMC may be deemed to have two main functions: one is to promote the consolidation of municipal PFMCs and the other to arrange human resources in place. These are called upon to be materialized from an information system buildup point of view, too.

2) Stages of Transfer from Management Organization to Systematic Finance Type

The Central Housing Finance Organization has a function of newly issuing debentures so that funds may be independently raised from the financial market. This organization, therefore, is to render loan services newly to house-supplying bodies to sell and lease private housing. With loanees so extended, a new system buildup will be required for loan examination, mortgage evaluation, credit guarantee, claim recovery, etc. The Ministerial Housing Finance Organization, moreover, will be able to inter-regionally finance, as required, those provident funds consolidated from ministerial PFMCs. These are called upon to be materialized from an information system buildup point of view, too.

3) Stages of Transfer from Systematic Finance Type to Policy-oriented Finance Type

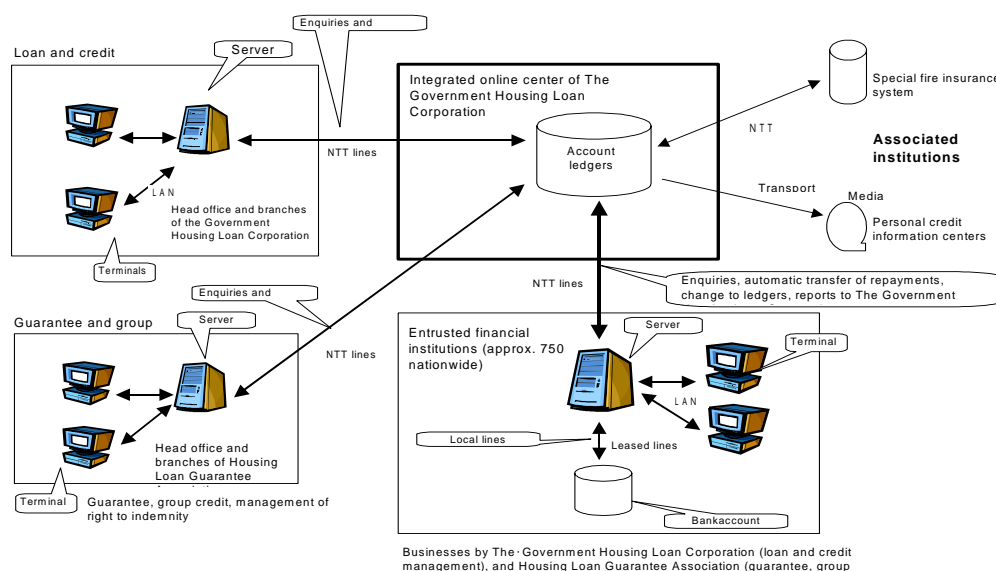
The Housing Central Bank of China (tentatively named) should dissolve the unequal feeling issue likely to increase from now on in the “Stratum Unable to Own Housing” and reduce the burden incurred on lease housing construction, maintenance, control, and repair provident expense at the parts jointly used in collective housing. With these challenges taken into consideration, the HCBoC is to conduct on a wide diversity of fund raising and operations, such as to deposit and operate funds in the Ministerial Housing Finance Organization, to intensify arbitrary provident funds and object taxes and to issue MBS/debentures by making effective use of the capital market.

(2) Specific Network Images of an Integral On-line system between Public Housing Finance Organizations and Commercial Banks

Shown on this page is a specific network image of the integral online system between a public housing finance organization and commercial banks, with the Government Housing Loan corporation and commercial banks in Japan taken up as an example.

The loans offered by the Government Housing Loan Corporation are policy-oriented. The integral online system will also require a system change or changes, coupled with an alteration of the scheme. The system changes do not only require a replacement of the program versions employed in the host but also an upgrade of the versions for the applications borne in exclusive terminals. In addition to the scheme revision, some functional improvements and the like have been done. Such a functional improvement would also require a change in host programs and an upgrade of the versions for exclusive terminals. To carry out these operations, a remote maintenance technique is used so that any changes in the government Housing Loan Corporation may be automatically transferred to the exclusive applications in entrusted banking institutions to rewrite such application software.

Figure 5-1 Integrated Online System Network of The Government Housing Loan Corporation



Source: JICA Study Team

(3) Road Map toward the Materialization of Housing Finance Information System Buildup

1) Clarifying Position of Administrative Organs

It is urgently necessary, first of all, to clarify which organ as administrative organization in charge (a specific department or section in charge belonging to an

organization, such as People's Bank of China or Ministry of Construction) is to be responsible for carrying out the project .

In addition, it is necessary to urgently study what means should be used to materialize the buildup of that housing finance information system (to financially secure budgetary appropriations and to make effective use of the vigor in the private sector, including BOT), etc.), and to what extent the private sector is able to support the system construction and operation, with the private sector assumed to take part in, and what room will be given to a foreign capital, such as a Japanese enterprise, to make inroads in China, including a linkage of partnership with a local enterprise.

2) Road Map toward Materialization of Housing Finance Information Buildup

- Grasp the realities in the housing finance information systems by region.
- Make case studies of Shanghai and Chengdu as forerunning examples.
- Arrange in order the challenges in the existing housing finance information system.
- Outline the housing finance information system asked for.
- Make a Japanese case study (hearing in the Government Housing Loan Corporation).
- Analyze cost-benefits.
- Arrange in order those conditions under which a private enterprise makes inroads into the business.
- Evaluate private enterprises' project chances.
- Prepare a detail road map toward the information system buildup.

5.1.2. Building up Personal Credit Information System

(1) Functions Required for Personal Credit Information System:

The functions that a personal credit information system is asked to perform are to gather and control the personal credit information according to the contents of transactions in a loan, credit cards, etc. so that such information may be offered for reference to determine a credit rating and manage a transaction after contracted among members. The personal credit information system, therefore, is required to have the following functions:

- Gather the personal credit information.
- Control the personal credit information.
- Prepare and offer the reference materials for credit rating determination and post-contract transaction management.

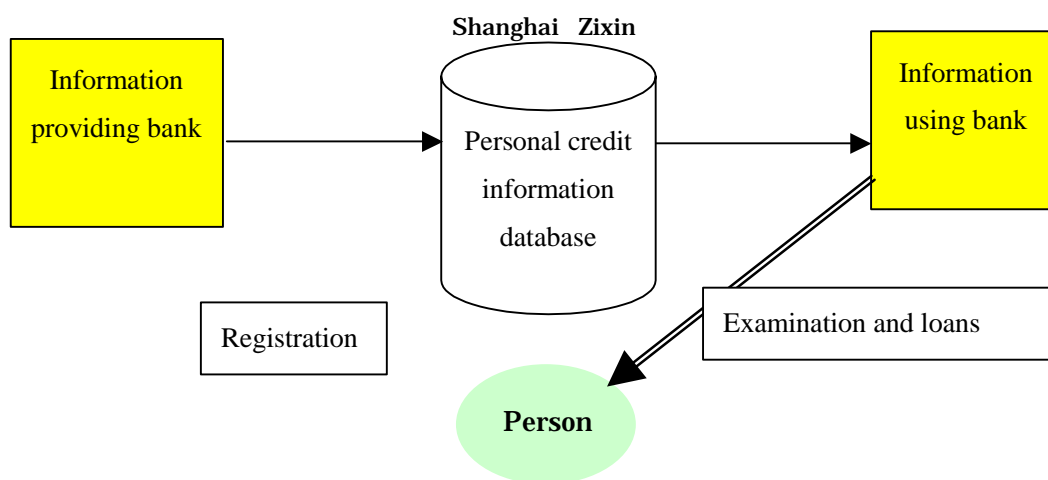
(2) Specific Image of Personal Information System

1) Shanghai Credit Information Corporation (China)

Based on an “Opinion about Expansion of Personal Consumer Loans” published by the Head Office of the People’s Republic of China in May 1999, Shanghai Credit Information Corporation (a personal credit inquiry firm, hereinafter abbreviated as “SPCIF”) was established as the first personal credit inquiry system in China in the same year. SPCIF opened an inter-bank personal credit inquiry system for the banks located in the Shanghai area in June 2000. SPCIF developed a comprehensive evaluation system of personal credit history in 2001. In June 2000 when the system was opened, SPCIF had the inquiry data broken down into 1.8 million personal credit inquiry cases, based on the materials on opening the 680 thousand personal consumer accounts in banks and of 1.18 million accounts for debit cards (a card, which permits a loan to be automatically received from a deposit account).

SPCIF is managed under the mechanisms where 0.2RMB is paid to an affiliated bank per case of data sources while collecting 10RMB per case of offered information retrieval.

Figure 5-2 Personal Credit Enquiry System in Shanghai (cited again)



Note: Arrows () indicate the flow of information.

Source: Study Team; based on the materials from Shanghai Zixin Corporation

2) Road Map toward Buildup and Materialization of Personal Credit Information System
Recommendably, the personal credit information system buildup should begin with establishing a company to operate a region-limited type personal credit information system, first of all.

More specifically, it is necessary to study a joint establishment of the system integrator to consolidate the computer hardware/software-related business in collaboration with consumer-finance-specializing firms, credit sales companies, credit companies belonging to groups of electric household appliance manufacturers/automakers, department stores, discount shops, bank-affiliated card firms, specialty stores' associations, lease firms, guarantee companies and so on, including the participation of a local administrative organ in some cases.

Subsequently, it may be envisaged that a credit information network is to be constructed in collaboration with two or more personal credit information system buildup/operation companies so as to expand a range of the coverage.

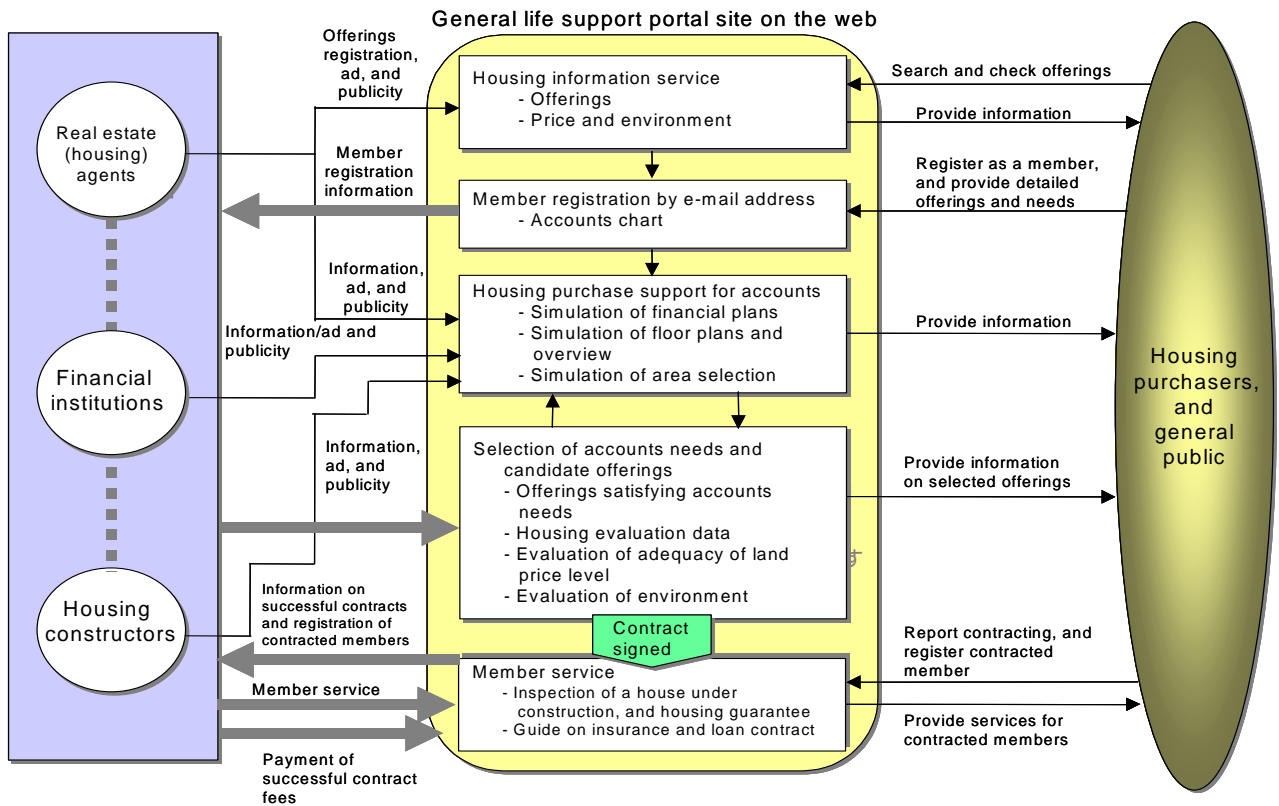
As far as the personal credit information system construction is concerned, moreover, European and American countries, including Japan, are way ahead of China in terms of the housing finance information system as earlier referred to. On the assumption that such information system construction is promoted with the lead taken in the private sector, it will be important to proceed with the materialization of the project while taking into consideration the joint participation of a foreign capital, with the system construction/operation reckoned as incentive.

5.1.3. Building up Housing Distribution Information System

(1) Functions Required for Housing Distribution Information System:

The mechanisms of a housing distribution system are described hereunder while using a business model as shown below.

Figure 5-3 A Business Model of Housing Distribution Information System



Source: JICA Study Team

The key lies in who is to construct and operate the housing distribution information system, and who bears the fund required. First, let's think about who bears the fund. A transfer of the price for the housing distribution information system over to the end user (those desiring to acquire a house) would allow us to predict a final exhaustion into price competition, which is naturally not an advantageous measure. Those who could be expected to bear the fund include housing developers, constructors and sales brokers and housing acquisition fund loan entities, including banks. Housing developers, constructors and sales brokers themselves could expect to explore potential customers, expand the sales route, and reduce the fixed cost (labor cost) by offering housing distribution information system services to the end user. When developing personal housing loans, a bank will be also able to offer the added-value service called "housing distribution information system" to the end user while keeping the sales cost suppressed. Both, therefore, may have the fund-bearing mechanisms in a form of property insertion fees, transaction (potential customer) introduction/brokerage and remuneration success in contracting. On the other hand, who should preferably operate the housing distribution information system? It is an Internet portal site where an immense volume of (potential) customer information is available while giving and taking a variety of information to and from

those daily living. At this threshold to the living people’s information exchange (portal site), a housing distribution information should be constructed to offer services. This will permit the system to be put into most efficient operation. In addition, the local housing distribution information updating should be entrusted to housing developers, builders and sales brokers and to banks, thereby possibly enabling them to offset their above-mentioned contributions to the fund (partially). With a business model of the housing distribution information system though out as referred to above, it is called upon to be given the following functions:

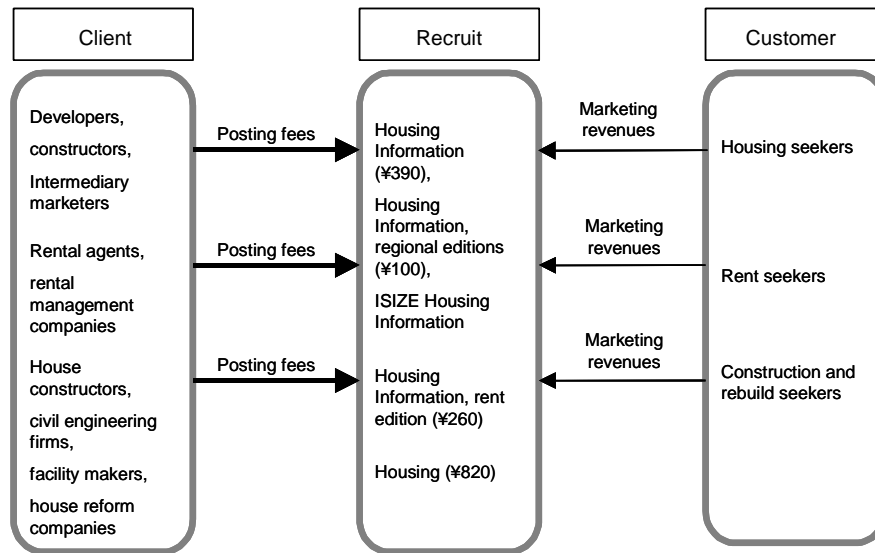
- Register, insert and advertise properties.
- Act as property broker.
- Search for a property.
- Support the fund-planning by those desiring to acquire housing
- Examine the information inserted.

In addition, information screening system, which conducts pre-examination, follow-up examination, and handles user complaints, is established. The ultimate purpose of this system is to convey right information to consumers.

(2) Matching Service Business with Effective Use of Magazines and Internet:

Business Model

Figure 5-4 Recruit Business Model



Examples from “Weekly Housing Information (Metropolitan version)”

Headlines (2 pages): JPY2,000,000/week

Comprehensive properties information: JPY10,000/week

Source: Recruit Co., Ltd.

(3) Road Map toward Buildup/Materialization of Information Buildup/Distribution System

The housing distribution information system should be finally built-up and operated by a private enterprise. It would be difficult, however, to secure the profit for the private business without affording a certain size in the beginning. In addition, it involves some risks in the initial stages of constructing an information system. China, furthermore, has had housing in stock as former corporate houses under the planned economy. In this sense, it is necessary to establish the mechanisms to promote the effective use, maintenance and renewal of such social capital, too. To this end, it is considered that China should bear a certain level of financial burden. Initially, therefore, it may be also envisaged that the housing market brokerage information system should be built up by an organization to be established as invested by the local government under its housing bureau. The existing Housing Real Estate Exchange Center may well guide functions. Even in the private sectors inside the Chinese territory, on the other hand, some enterprises have begun to insert the housing information on Internet. And others have already had a plan to deploy more than 1,000 stores of a housing brokerage franchise (handling not only in-house properties but also conducting on agency operations for brokerage of properties owned by other companies) over the nation on the web by the end of next year. There are possibilities that such enterprises may compete with a public organization, such as the above-mentioned Housing Real Estate Exchange Center, etc. Finally, however, an option belongs to information providers and house vendors as information sources. It is considered, therefore, that good ones should survive and others not so good should be weeded out.

Such housing distribution information should be thought out so as to cover not only PC holders but also those other than Internet subscribers to be informed, with not only brokerage counters but also paper media, such as weekly or the like.

5.2. Cultivating Human Resources Concerned with Housing Finance and Establishing Certification System

5.2.1. Direction in which Human Resources Concerned with Housing Finance should be Cultivated and Certification System should be Established

As footing to construct a housing finance system, it is indispensably necessary to cultivate those who have technical occupational knowledge and abilities.

Training specialists with professional knowledge/abilities and placing these individuals in appropriate and 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 certification system, which systematically places certified employees in the organization.

Housing is real estate. Since civil law is still underdeveloped in China, the relationship among properties, and debentures, mortgages in housing can be very complex. In fact, real estate transactions tend to be troublesome in any countries. 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 is based on 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.

For example, 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.

Training programs should be designed while considering certification system.

5.2.2. Methods of Cultivating Human Resources concerned with Housing Finance and of Establishing Certification System

(1) Constructing an integral training scheme:

1) Building up an integral training organ:

Finally, it is desirable to establish such an organization as a vertical type training organization covering across financial and residential fields, e.g. Central Housing Finance Training Center (tentatively named). It is indispensable, however, to make preparations and accumulate training know-how, such as to build up facilities, start up a training program and secure a staff of instructors. As the first step, therefore, it may be considered more realistic to strengthen the existing training schemes in both People’s Bank of China and in the Ministry of Construction more than ever so that it may begin with a new creation of the housing finance-conscious training curriculum. To this end, it is indispensably necessary for the departments in charge of human resource cultivation in the People’s Bank of China and in the Ministry of Construction to use their leaderships to make arrangements with the related department of each commercial bank or with each regional construction department. The steps as a whole are supposed as under.

a) The People’s Bank of China and the Ministry of Construction make arrangements

with their own training schemes inside their own in-house systems, and build up an intra-system vertical training organization while providing the contents of housing-related training.

- b) Strive to keep the People's Bank of China in close contact with the Ministry of Construction so as to share the housing-related training programs, and allow for the use of training facilities, and form a joint network of instructors, so as to establish the scheme in which some training units may enjoy training to each other.
- c) Build up the housing finance joint training facilities under joint jurisdiction of the People's Bank of China and the Ministry of Construction so as to start up a common training program.
- d) As required, install a Central Housing Finance Training Center (tentatively named) and its local centers so as to build up a nationwide network of training systems. Under the Central Housing Finance Training Center (tentatively named), it is necessary to install the secretariat, training management department, training aids department, training facility operation department, etc. Though dependent upon the overall size, moreover, it is also necessary to cultivate instructors and to organize a purchase-collaborating department, too.

2) Making Effective Use of Existing Facilities

Constructing an integral training scheme is mainly to integrate a control organization and consolidate the principal contents of training. To this end, the existing facilities, such as a research facility owned by a leading commercial bank, should be made most effective use of. Besides, an effective use of facilities in a university or the like may be considered as one of the choices.

(2) Starting up Compost Training Programs and Making Effective Use of Diversified Training Forms

1) Starting up Composite Training Program:

When starting up a housing finance-related training program, it is necessary to intentionally think it as something composite. More specifically, it is necessary to provide some course elaborately thought out as tailored to a level of trainees, purpose of the training, field to which importance be attached, main occupation ability type, interlocking certifications and so on.

As leader training levels, for example, it is necessary to provide the primary class (chief term member and team leader), medium class (superintendent and chief), and advanced class (superintendent and above). General personnel training also need be

ranked into primary level (new comers), medium class (experienced workers), and advanced class (those with a career). Technical training, moreover, should be divided into two fields: financing and housing. Besides, what is contained in related fields should be also included.

2) Making Effective Use of Diversified Training Forms

If a balance is taken into consideration between the needs of training and the training facility buildup/program startup, it is indispensable to make effective use of diversified training forms from a short-term point of view.

As an alternative, it may be envisaged to open a related technical course or specializing seminar in a university. For time zones, training may be continuously opened in the nighttime and intensively during the summer or winter vacation. To secure instructors, moreover, the issue will be dissolved smoothly through their cultivation or through collaboration with the university.

In initial stages, furthermore, the existing information network and an available communication means may be used to take into consideration cable TV training and Internet remote training.

5.2.3. Building Certification System in Housing Finance

(1) Making Effective Use of Existing Certifications

To construct a housing finance-related certification system, the first step is to make effective use of the existing certifications closely related with housing finance services. In other words, the organization (including the autonomous efforts of an individual) is to positively support the personnel engaged in housing finance services to obtain a certification suitable for their respective services and careers. In this stage, a training program is also desirably to install a specific certification course.

(2) Building up Certification System at Three Levels;

To build up the certification system, it is necessary to create those mechanisms which would allow a certification candidate to make efforts step by step. It is not intended, moreover, for an organization to let personnel obtain a higher level of certification (national certification) itself but to aim at improving the ability of rendering services, coupled with the obtainment of a certification so that the personnel may upgrade their performance. Different levels of certification systems, therefore, are called upon to coexist.

The table below shows a basic image.

Table 5-1 Building up Certification System at Three Levels

LEVEL	APPLICATION (APPROVED)	CONTRIBUTION TO ORGANIZATION (POSSIBILITIES)
National certification Certification and certification at a national level	Nationwide (partially effective internationally)	<ul style="list-style-type: none"> • Contribute to an upgrade of the organization to a higher rank. • Contribute to an improvement of manpower level all over the organization. • Contribute to an improvement of performance all over the organization. • Appealable to the exterior.
Individual industrial license, certification and certification Composite industrial license, certification and certification	Within an industrial sector	<ul style="list-style-type: none"> • Contribute to an improvement of manpower level all over the organization. • Contribute to an improvement of performance in an organization.
Intra-organ certification (service ability assessment norms)	Within an organ (e.g. within a bank/within a bank group)	<ul style="list-style-type: none"> • Contribute to an improvement of basic manpower level. • Contribute to an improvement of performance in an organization. • Contribute to a transparent and objective evaluation of personal affairs.

Source : JICA Study Team

A certification within a limited organization, however, is persistently apart from a promotion in the so-called management line rankings. It is an intra-organization system to determine, based on certain standards, such as personnel ability, occupation, school education, number of service years, etc. The intra-organ system should generally take into consideration the status of those national certifications and/or licenses obtained validly within an industrial sector. It should be noted, however, that the intra-organ system is characteristically different from a national system.

(3) Creating Comprehensive Housing Finance Certifications for the Future

Comprehensive certifications in the field of housing finance need to be developed for the future, in addition to utilizing numerous types of existing certifications. Creation of “Housing Finance Manager (tentative name)” certification should be investigated, together with trainings related housing finance.

Persons in charge in banking institutions may be trained for the purpose of learning the knowledge about finance services (examination, loan, credit management, recovery, etc.), including the updated information about the public housing finance system. Upon completion of such training, they take an examination to qualify as the “housing finance manager” as mentioned above. Organizations mainly concerned, such as Ministry of Construction, People’s Bank of China, may prepare an examination questionnaire for the certification. Coupled with the progress of systems, policies and techniques in the housing finance field, moreover, periodic training may be mandatorily required. And it may be taken for the requirement to renew the validity of certification.

5.3. Aiming at Activation Housing Market

5.3.1. Necessity of Studying the Measures for Activation of Used/Rented Housing Market

A thought about the medium-/long-term sustained activation of housing markets in China should be based on the following fundamental recognition, with priority given to the formation of used housing and private lease housing markets:

Owned and rented houses are two wheels used to establish an activated housing market. Especially in a large city, dwellings are moving remarkably, coupled with a population inflow and a change in family configuration/life style. Nearer and near to the urban centers, moreover, private rented houses (houses to let) have their importance increased all the more. In addition, it should be desirably recognized that both owned and rented houses are meritorious for house-purchasing prospects and housing market developments (economic growth). And it is desirable to expand a range of the housing-loan users’ selections from the viewpoint that economic resources should be effectively distributed. A housing policy, including a financial policy, requires consideration and response for the formation of houses in stock, maintenance and improvement.

In China, a variety of policies have been being deployed to supply and dwell (consume) owned houses newly constructed. This country, however, has lagged behind in deploying studies and policies to distribute used houses, important component of the housing market, and to form and activate the (private) rental market. Especially to stimulate the

middle-income stratum to consume private rented houses, any action has not been making any progress at all. Irrespective of ownership forms owned or rented, the middle-income stratum in China show a high level of housing consumer needs. Activating their consumption from both sides of supply and consumption (while prompting the distribution of used houses) will lead to an enhancement of the filtering function on the housing market, eventually inducing the demand for (purchasing) housing newly built. Singles, and young and old households (including singles), in particular, are assumed to dwell in a house for a rather short period, and does not always require their housing to have a living area of more than 100 m², center of the current demand for newly constructed housing. To satisfy the diversified housing needs that such demand strata have, it is important to map out and implement the measures to supply market-supplementing private rented houses while stimulating their consumption, including the measures to promote the used housing distribution.

To study and implement the measures to supply private rented houses and stimulate their consumption in a large city of China, a public sector should not construct new houses or supply rented houses directly to the middle-income strata, but to induce and stimulate the private sector indirectly by building up the environments for activation of the market, and giving incentives in such institutional aspects as taxation and financing, including the buildup and disclosure of the individual property information relating to both existing and new stocks. These measures are considered realistic, with consideration given to the financial recourses and human limitations seen in local governments.

In China, most of the houses supplied and operated as corporate housing in the public sector were sold to individuals by the Government. This housing stock has been existing in a significant scale and must be effectively used and fluidized according to the quality and/or age of each house in stock. A smooth progress of such effective use and fluidizing would surely induce a new demand for housing. Regarding the existing housing stock, a study should be made of a governmental involvement to rearrange the information, a temporary buy-out, maintenance and repairing, and a re-throw into the used and private rented housing market.

5.3.2 . Housing Activation Measures

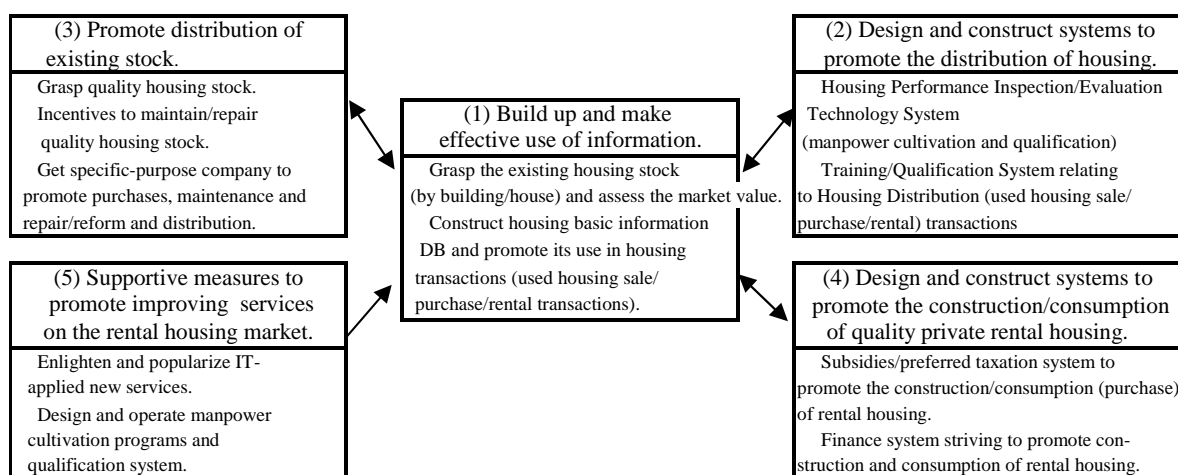
An outline of the housing market activation measures proposed is given below. (Refer to Fig. 5.5.)

(1) Building up Housing Basic Information Registration System and Making Effective Use of Database:

It is important for three market players, “consumers,” “suppliers (builders)” and

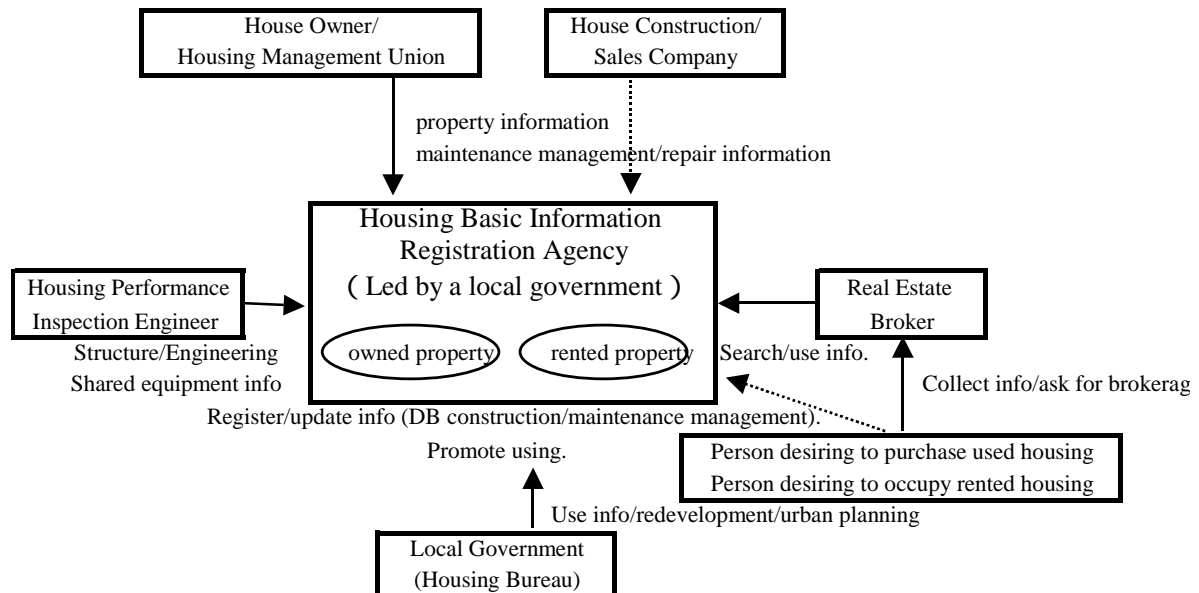
“information/service providers,” to effectively retrieve and utilize the quality information when acting to buy and sell housing, transact with rental/lease, render brokerage and information services. In this sense, it is necessary to build up and effectively utilize the information relating to housing assets, such as the existing housing stock and the currently increasing product houses newly constructed. To this end, the “Housing Basic Information Registration System” has to be built up while constructing and operating a database, based on the data available from the HBIRS.

Figure 5-5 Measures to Activate Housing Market and their Flow



Source: JICA Study Team

Figure 5-6 Image of the Housing Basic Information Registration System to Activate Housing Distribution/Rental Market



Source: JICA Study Team

To build up the housing basic information, a local government-led housing basic information registration order should be established to construct and map out the database design/operation procedure/standards, while absorbing the private needs in consumers and suppliers. Under the housing bureau of a local government, for example, it may be envisaged that an organization wholly owned by the local government may be established and operated. (Refer to Table 5-6.) To use the information registered in the database, a fixed rate of charged should be collected from users from the viewpoint of furnishing them with many merits. This will minimize the financial burden involved in running cost to the least.

(2) Building up Housing Distribution Promotion System

1) Designing and Establishing Housing Performance Investigation/assessment Technology system (technology and certification):

The housing performance investigation/assessment technology system is to contribute to the activation of the housing market by furnishing and building up quality housing basic information, based on an appropriate evaluation and judgement of the existing/newly constructed housing performance, including safety standards. The technical standards established by the government or local government, and a

certification system divided into a few stages meeting such standards, should be designed and set up to cultivate a large number of the housing performance investigation engineers enough to cover the qualities of housing constructed, sold and distributed.

Table 5-2 Outline (Draft) of Used/Rented Housing Management Public Corporation (tentatively named) in Local Large Cities (1st Phase 2002 thru 2005)

OBJECTIVE	<ul style="list-style-type: none"> To activate the housing market by promoting the distribution of the existing housing stock. (used housing purchase/sale and rental transactions)
Capital	<ul style="list-style-type: none"> Non-profitmaking legal person wholly owned by a local government Study the feasibility of establishing the legal person, with two or more private real estate companies contributing to the capital in some regions.
Organization/Manpower	<ul style="list-style-type: none"> Partially transfer the functions of a local government (Housing Development Bureau or the like). Initially secure a personnel of about 20 persons, which are to be transferred from the local government either temporarily or permanently and from private real estate companies. Perform the functions of a secretariat in relation to the map-out of a basic policy/detail plans for a variety of institution designs while taking the design, construction and operation of a housing basic information database for the first objective.
Main Functions	<ul style="list-style-type: none"> Build up the basic information relating to the existing housing stock (by building/by house) (first objective for the time being).. (To design and construct a housing basic information database and to offer information) Study, design, establish and operate a housing performance survey/evaluation technology system Study, design, establish and operate an education/qualification system relating to the housing distributic (used housing purchase/sale, and rental) Map out specific measures to promote the fluidization of the existing housing stock, including former corporate housing. (Temporarily buy, maintain and repair, and input all over again into the housing market, with a specific-purpose company established.)

Source: JICA Study Team

(3) Designing and Establishing Education/Certification System relating to Housing Distribution Transactions (used housing sales and purchases and rented housing transactions):

To proceed smoothly with the used housing sales/purchases and rented housing transactions, while making effective use of the housing basic information, including the housing performance investigation/assessment information, it is necessary for a real estate brokerage firm to provide the manpower that has abilities to determine architectural skill/market values, knowledge about the housing finance system, IT utilization skill and legal knowledge and skill, including contractual paperwork. To secure these human resources, it is necessary to design and construct a certification system, such as “Chief Real Estate Handler” in housing sales/purchase and housing rental contracts. In this sense, it is essential to example the certification requirements fully matching with the contents in the housing basic information registration system. After setting up medium-and-term targets by type of the manpower to be

cultivated institutionally, it is necessary to design and operate a manpower cultivation (education) program, which should satisfy the requirements referred to above.

(4) Promoting Existing Stock Distribution and Making Effective Use of Specific Purpose Company

1) Grasping Genuine Housing Stock, based on Housing Performance Investigation/Assessment Information

The existing housing stock should have both quality and quantity grasped by using the housing basic information (database), including the housing performance investigation/assessment information. Especially in the quality aspects, a certain level of assessment standards should be established first. Based on such standards, “houses should be rated.” According to such house ratings, measures should be studied to map out a variety of incentives so as to promote used housing sales/purchases and rented housing distribution and corrective action for maintenance, repairing and redevelopment (scrap & build). (Refer to Table 5-2.)

2) Studying and Designing Incentives for Continuous Maintenance and Repairing of Genuine Housing Stock:

The Government Housing Loan Corporation in Japan has been striving to reserve and form the funds to support a planned repair of sky-scraped housing. In this sense, the GHLC provides some fancying tools, including the “Multistoried Housing Repair Debenture Reserve System” which permits a housing loanee to receive some privileged measures when borrowing the cost for repairing. Besides, the “Multistoried Housing Commonly Used Portion Reform Loan” is also offered to cover a variety of maintenance and repairing works. In China, it is desirable to study and design various incentives from taxation and finance system points of view, to promote the further maturity and fluidization of the housing market.

3) Studying Implementation by Specific Purpose Company to Temporarily Buy, Repair and/or Renew Existing Housing Stock, and to Promote Distribution (used housing sales/changeover to rented housing):

The existing housing stock contains some buildings that require a medium scale of repairing and/or renewal. Repairing them, however, will naturally entail costs. With the fact of a scarce market value taken into consideration, however, a system covering all of the legal, tax and financial aspects, should be studied to enable a specific purpose company to be established and operated for the specific purpose of buying, repairing, renewing, reselling and/or renting the existing housing stock entirely on a collective house, by collective house basis. The specific purpose

company should buy every existing house in stock at reasonable prices and take sufficient time to repair, and rebuilt the buildings on the body and commonly occupied zones, while reforming door to door. Later, the houses should be re-thrown into the housing market as properties to be sold or rented as used. In terms of proceedings and taxation, preferred measures are to apply to the price at which each house is brought from the existing owner, including the treatment of the existing owner's current and future residence issue, fund raising for repair/renewal works, proceedings and taxation involved in the establishment and management of the specific-purpose company. At the same time, studies should be also made about the feasibility of establishing the specific purpose company as joint venture owned by private real estate company and local governments, and to introduce a competitive auction system with two or more consortia.

Table 5-3 Measures to Promote Fluidization, based on Quality Evaluation of Existing Housing Stock (example)

RATING	QUALITY EVALUATION	MEASURE (FLUIDIZATION-ADDRESSING MEASURES)
A	<ul style="list-style-type: none"> • 10 or less years elapsed after construction without necessity of repair/renewal for the time being. • Fully possible to distribute the house on the market, as it is, on a used housing purchase/sale/rental transaction basis. 	<ul style="list-style-type: none"> • Encourage an enhancement of the maintenance/management system. (Study the feasibility of organizing a management union and of constructing a repair provident system.) • There is no incentive, in particular, to promote distribution.
B	<ul style="list-style-type: none"> • Necessary to repair/renew in small scale though 10 years or less have passed after construction. • Fully possible to distribute the house on the market on a used housing purchase/sale/rental transaction basis after repaired/renewed in small scale. 	<ul style="list-style-type: none"> • Encourage to organize a maintenance/management union and to renew/repair on a self-assisting effort basis (Encourage to set and use a full-scale repair loan. • Reduce tax on the distribution/transaction of property after completion of maintenance and renewal.
C	<ul style="list-style-type: none"> • Of high quality though 10 years or more have passed after construction but requiring repair/renewal in medium scale • Fully possible to distribute the house on the market on a used housing purchase/sale/rental transaction basis after repaired/renewed in medium scale. 	<ul style="list-style-type: none"> • Study the feasibility of a blanket purchase by a specific-purpose company and of repairing/renewing building by building. The existing owner, if desired, is allowed to occupy on a rental/lease basis while selling the rest as used property. • Give a specific purpose company a preferred treatment under the taxation system.
D	<ul style="list-style-type: none"> • 10 or more years elapsed after construction and requiring repair/renewal in full scale • Possible to distribute on the market on a used housing purchase/sale/rental transaction basis but requiring significant cost. 	<ul style="list-style-type: none"> • Study the measures similar to those for housing Rank C. If impossible to commercialize, study the measures similar to those in Rank E (incentives as term-limited rental property, etc.)
E	<ul style="list-style-type: none"> • Constructed too many years ago and structurally difficult to drastically maintain/repair. • Considered to have a residual serviceable period of within 10 years 	<ul style="list-style-type: none"> • Map out a medium-term transfer of proprietary tight plan/occupant move program as redevelopment (scrap and build) measure • Study incentives as a term-limited rental property.

Source: JICA Study Team

4) Building up System to Newly Construct/Promote Consumption Genuine Private Rented Housing:

With the incentives on rented houses under the “Specific Preferred Rented Housing system” in Japan taken up as reference, a system tailored to the realities in China will be studied to clarify the certification requirements for the preferred system by targeting a constant income stratum and young/old households taken for consumers.

In order to complement the current newly built product housing supply system liable to satisfy the needs of broader residence for a high-income stratum, a wide diversity of consumers will try to be induced to the market to satisfy a wide diversity of the consumer needs. To design and operate such a system to promote the formation of a genuine private rented housing market, it is necessary to provide a variety of incentives, such as subsidies, preferred taxation, financial system, etc. Options available include a “subsidy for construction,” “an aid for the rent for occupation,” “grants for a preferred construction loan and for paying the loan interest” and so on. After taking into considering the situations on the market, local characteristics in China, and in local large cities, it is necessary to review what the conventional housing-related tax reduction with the first priority given to owned housing, and grants for economical housing construction should be. Instead, a comprehensive study must be undertaken to determine a newly designed system, that will promote the construction and consumption of rented housing, as tailored to the progress of the housing market, including how to allocate the housing-related financial burden.

5.4. Establishing Infrastructure for Promoting Housing Policy

Three main perspectives desired in the development of housing plans in China are as follows:

- 1) China is currently going through variety of social and economic changes, such as rapid urbanization, economic development, increasing number of elders, and permeation of urban life style. Therefore, it is critical for China to grasp changes in people’s needs towards housing and living accurately, and to develop housing plans accordingly.
- 2) In order to ensure the effectiveness of housing plans, housing plans/policies should be monitored regularly and a framework, which incorporate results of monitoring in the next housing plans, need to be built (“Plan”=>“Do” =>“See”).

Following two strategies should to be examined thoroughly, in order to carry out above plans.

- A. Developing and utilizing housing-related statistical system.
- B. Establishing a process to build housing plans (housing fund plans).

5.4.1. Developing and Utilizing Housing-Related Statistical System

(1) Basic Direction of Examination

Currently, numerous types of statistics are being developed in China, such as statistics for investment and sales provided on-line. However, utilization/usage of these data is extremely limited, and a wide-range of information required for building housing plans is not yet 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. In addition, a method that systematically incorporates these issues into housing plans should be established.

(2) Specific Issues

1) Studying the housing statistics to be built up with priority:

The statistics relating to housing stock and the industry-related tables for analysis by the construction sector, have been absolutely lacking at present. To prepare these statistical data, it is necessary to study the technical challenges (including those treated out of the existing statistics) and to establish the housing statistics standards and what a scheme should be organized to gather statistics.

Figure 5-7 What is Specifically Contained in Housing Statistics

【Housing Basic Statistic Group】

Housing flow statistics (by method of construction, number of works started by form, value of work started (investment)

[Japan] : Annual Statistical Report of Construction, number of public works started, and construction unit price survey (GHLC)

Housing Stock Statistics (how to construct, form, number of residential houses by status of equipment, area)

[Japan] : Housing Statistic Survey <Ministry of General Affairs>

【Housing Industry/Real Estate Sales Statistics Group】

Housing sales statistics (selling prices, number of houses sold, types of houses sold...)

[Japan] : Real Estate Economics Laboratory>

Housing Industry Statistics

[Japan] : Real Estate Industry Statistics <Ministry of National Land and Traffic

【House Purchaser Statistics Group】

Annual Income/Consumption Statistics (consumed value by goods/service, disposable income, ...)

[Japan] : Housekeeping Survey Annual Report, Consumption Fact Finding Survey <both Ministry of General Affairs>

Savings Statistics (value saved, value of assets owned, ...)

[Japan] : Savings Trends Survey <Ministry of General Affairs>

Housing Needs Survey (questionnaire survey assumed)

【Housing Fund Statistics Group】

(Housing) Fund Circulation Statistics (value of funds raised, amount of loans by organization and by field, ...)

[Japan] : Fund Circulation Statistics <Bank of Japan> , Financial Banking Statistics Monthly Report <Ministry of Financial Affairs>

Housing Fund User Fact-finding Survey (value borrowed, types, such as purchased house construction method, form, etc.

[Japan] : User Fact-finding Survey <Government Housing Loan Corporation

【Housing Evaluation Statistics Group】

Industry-related chart (value of annual investments by construction member, value of transaction by construction member industry...)

[Japan] : Industry-related Chart for analysis of the construction sector <Ministry of National Land and Traffic>

Housing User Fact-finding (satisfaction level) Survey/Statistics (level of satisfactions by house and by equipment, ...)

[Japan] : User Fact-finding Survey (Government Housing Loan Corporation>

* stands for those items which China is especially required to provide:

Source: JICA Study Team

2) Studying Scheme to Gather, Control and Furnish Statistics:

Studies will be made about what organization should be, so as to enable a local government to gather stably and richly (in Japan, a local statistical main organization is functioning) and how to secure human resources (statistic investigators).

3) Studying Statistics buildup Strategy as viewed from Housing Statistics Utilizing Point of View

Housing statistics may be built in precisely while being effectively utilized. A future course toward an improvement of statistical elaboration is to be studied with the housing demand/housing fund demand measuring process assumed.

4) Studying Central-Local Online Statistics Gathering System:

An information system is to be studied to support those statistics preparation services to be performed across local to central governmental agencies, such as to prepare, gather, and inspect (audit) statistics. To furnish statistics, moreover, it is necessary to study the implementation of magnetic media (CD-ROM, etc.), and OA equipment for statistical survey paperwork, and software developments to improve the paperwork efficiency .

5) Studying Measures to Cultivate Human Resources to Make Effective Use of Statistics:

Studies will be made about how to secure the manpower with a certain level of knowledge about statistics and what a training system be so that an effective and efficient statistical investigation can be implemented while making most of the abilities available in the existing statistical personnel. A detail study will be made about what a training system and a training organ should be, to invite from the exterior the manpower with a broad range of knowledge such as: to forecast a demand for personnel, specialty in statistics, techniques of prediction, skill and the like on a short-term (1 year) basis and cultivate those in China on a long-/meium-term basis.

5.4.2. Establishing Process for Building Housing Plans (Housing Fund Plans)

(1) Basic Direction for Consideration

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

Traditionally, developing plans and relevant fund raising/financing 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. As a result, housing (building social assets) and financing collateral (loan plans, budgetary steps) will be linked and “effective” plan development can be made possible.

(2) Specific Issues for Consideration

1) Developing housing demand prediction technique and studying course of utilization:

In China, the housing demand has been so far predicted by a regression analysis on the premises of the economic structure in the past. To accurately predict a structural change, a demand predication technique is to be developed while incorporating the changes in environments and the needs in the future. And measures are to be studied to implant the technique. To reflect the housing demand precision results on the housing loan plan and fund raising plan, it is necessary to develop and study the techniques for predicting the demand for housing funds while achieving a further precise level of prediction.

2) Studying Organization to Map out and Deliberate Housing Policies Crosswise:

In Japan, a housing/residential area council has been playing a leading role in the Housing Buildup Five-Year Plan. With a couch a council taken up as model, studies will be made about what a cross-ministerial public/private jointly working type policy map-out/deliberation organ should be, with the governments at central and local levels collaborating. At the same time, a study will be made toward the establishment of such an organ in China.

3) Studying the Information Network Supporting Ma-pout of Housing Plan:

To support sending and receiving data, and decision making discussions, etc., promptly and smoothly, all required in the process of mapping out a housing plan, a study will be made about what a large-capacity human interface-oriented policy map-out support information system should be.

4) Studying How to Secure and cultivate Specialists:

To map out a new housing policy as tailored to a demand prediction, a study will be made in detail about how to cultivate the manpower with a broad range of knowable relating to the effective use of statistics and demand predication, specialty in statistics, predication technique/skill from the viewpoint of what a training system and a training organization should be.