

# **Evolution of mortgage regulations in Asian countries**

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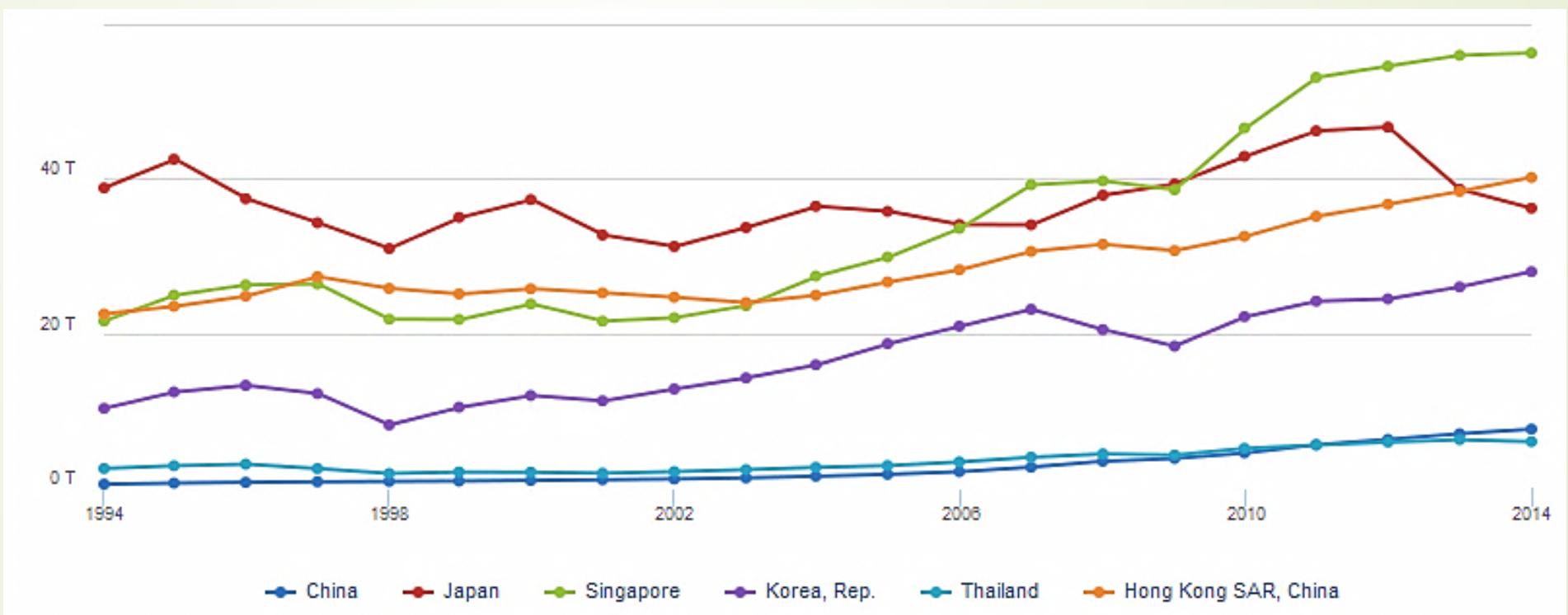
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# 1. Introduction

- ▶ Housing bubbles inspired the design of relevant mortgage regulations in the financial market. Li and Li (2012) suggested that after the subprime financial crisis, the governments of the U.S. and Canada focused more on the regulation of mortgages.
- ▶ The regulation of mortgages is so important that it could affect the global economy.
- ▶ In this paper, the author investigates the extent of mortgage regulations in six Asian countries, to have a general view of the relevant frameworks in each country.

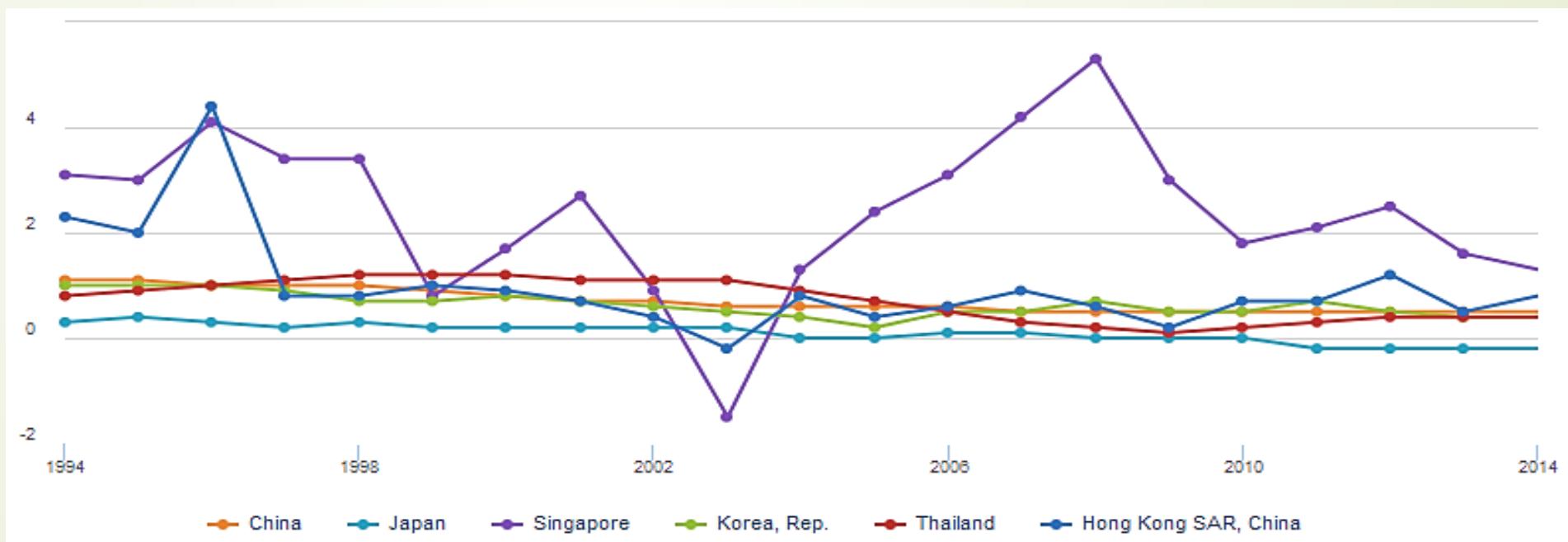
## 2. Mortgage finance and macro economy

- GDP per capita (US\$) (World Bank, 2016)



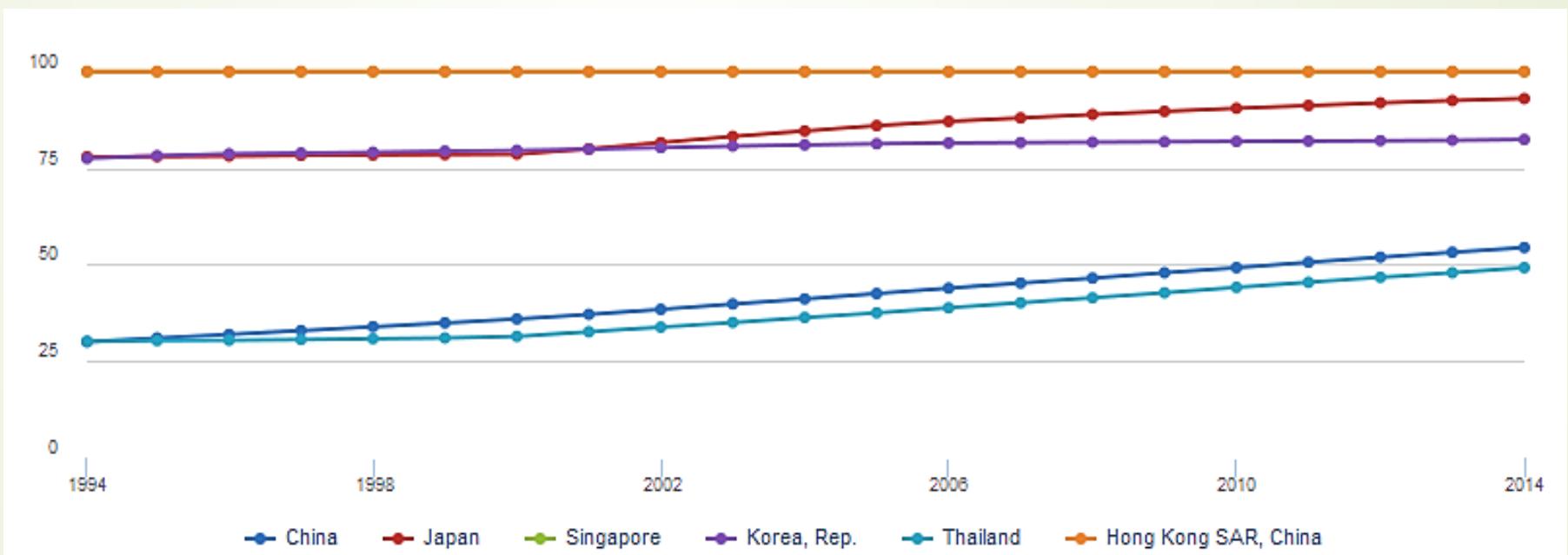
## 2. Mortgage finance and macro economy

- Population growth (annual %) (World Bank, 2016)



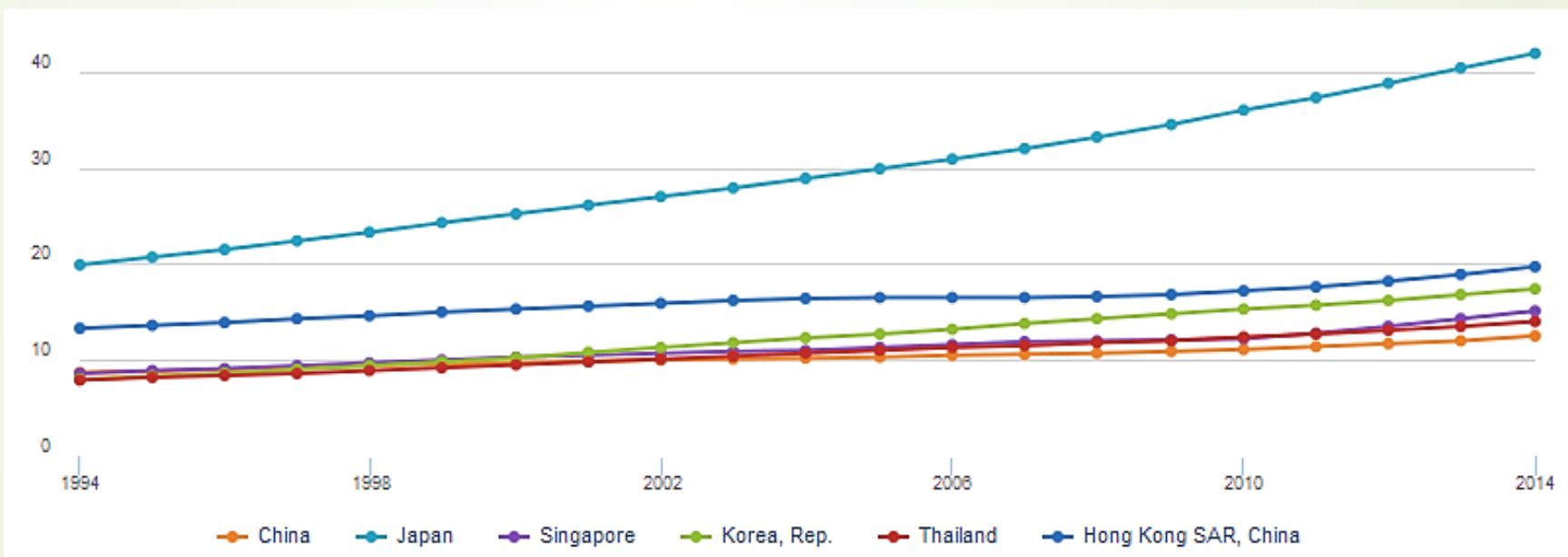
## 2. Mortgage finance and macro economy

- Percentage of urban population from 1994-2014 (World Bank, 2016)



## 2. Mortgage finance and macro economy

- Dependency ratio of older individuals, age 65 and above (percentage of the working population) (World Bank, 2016)



## 2. Mortgage finance and macro economy

### ► Reverse mortgage

- a) Reverse mortgage is a type of home loan for older homeowners that requires no monthly mortgage payments (CFPB, 2012).
- b) It could help the elderly finance their properties.
- c) Davidoff, Gerhard, and Post (2017), suggested that the reverse mortgage model helps older people by letting them consume home equity without leaving the home.

### 3. Mortgage Finance Markets in Asia

► Analyze five major areas in Asia

- a) Japan
- b) Hong Kong
- c) Thailand
- d) Korea
- e) Singapore

### 3. Mortgage Finance Markets in Asia

- Mortgage market as percentage of GDP in Asia (Masahiro Kobayashi, 2012)

Selected Asian countries	Percentage of GDP
Japan	40
Hong Kong	38
Thailand	10
Korea	13
Singapore	36

### 3. Mortgage Finance Markets in Asia-Japan

- ▶ Changes in Japan's mortgage market from 1994 to 2014

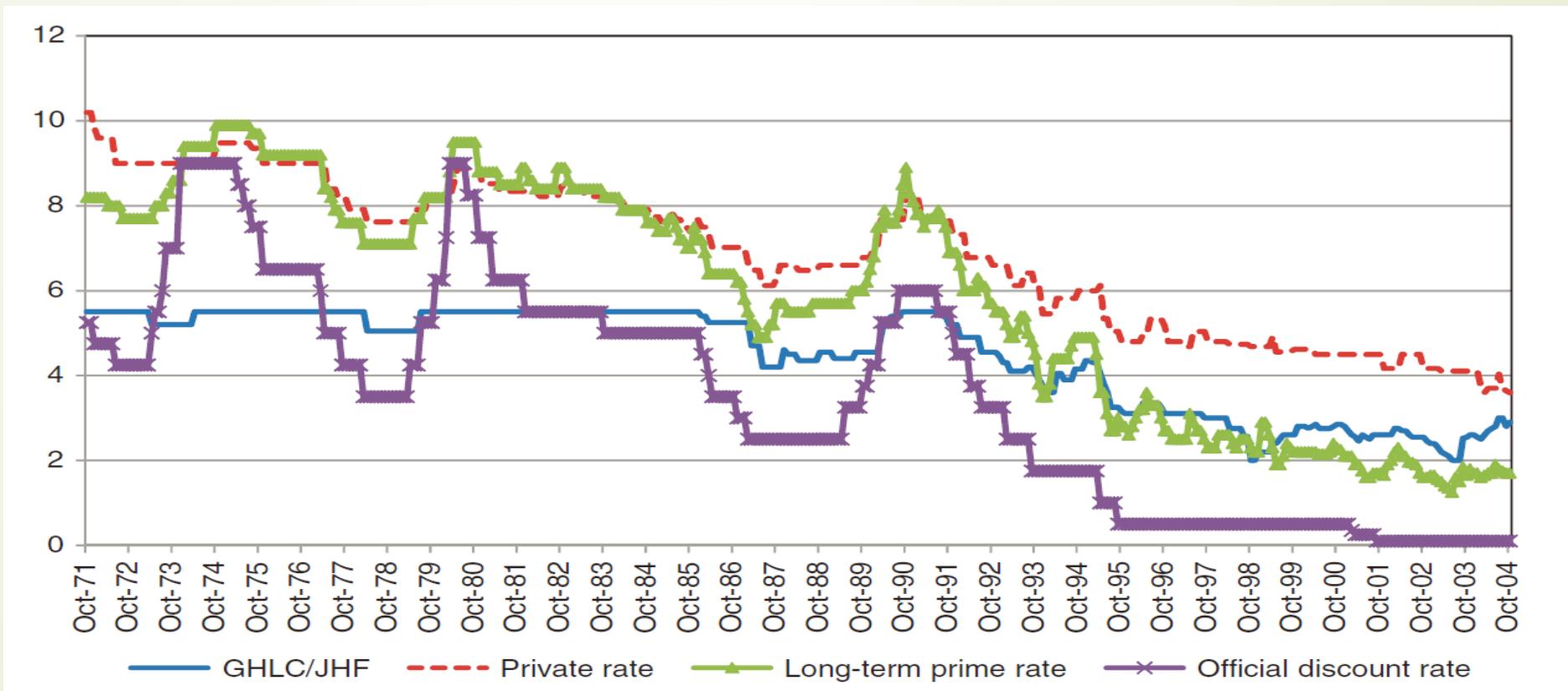
Year	Changes
1950	The Government Housing Loan Corporation (GHLC; or the Japan Housing Loan Finance (JHLF)), was established to provide long-term low interest housing loans
2000	Started to issue mortgage-based securities
2001	The winding-down process of the JHLC began
2007	The JHLC was replaced by Japan housing finance (JHF)
2011	JHF extended the borrowers' outreach programs

### 3. Mortgage Finance Markets in Asia-Japan

- ▶ Japan was the second largest mortgage market among Hong Kong, Singapore, Korea and Thailand, from 1950 to 2010.
- ▶ Japan applied low rate mortgage policy and had a very low mortgage rate of 2.37% in 2010.

### 3. Mortgage Finance Markets in Asia-Japan

- Historical interest rates related to the housing loan in Japan (Seko & Sumita, 2012)



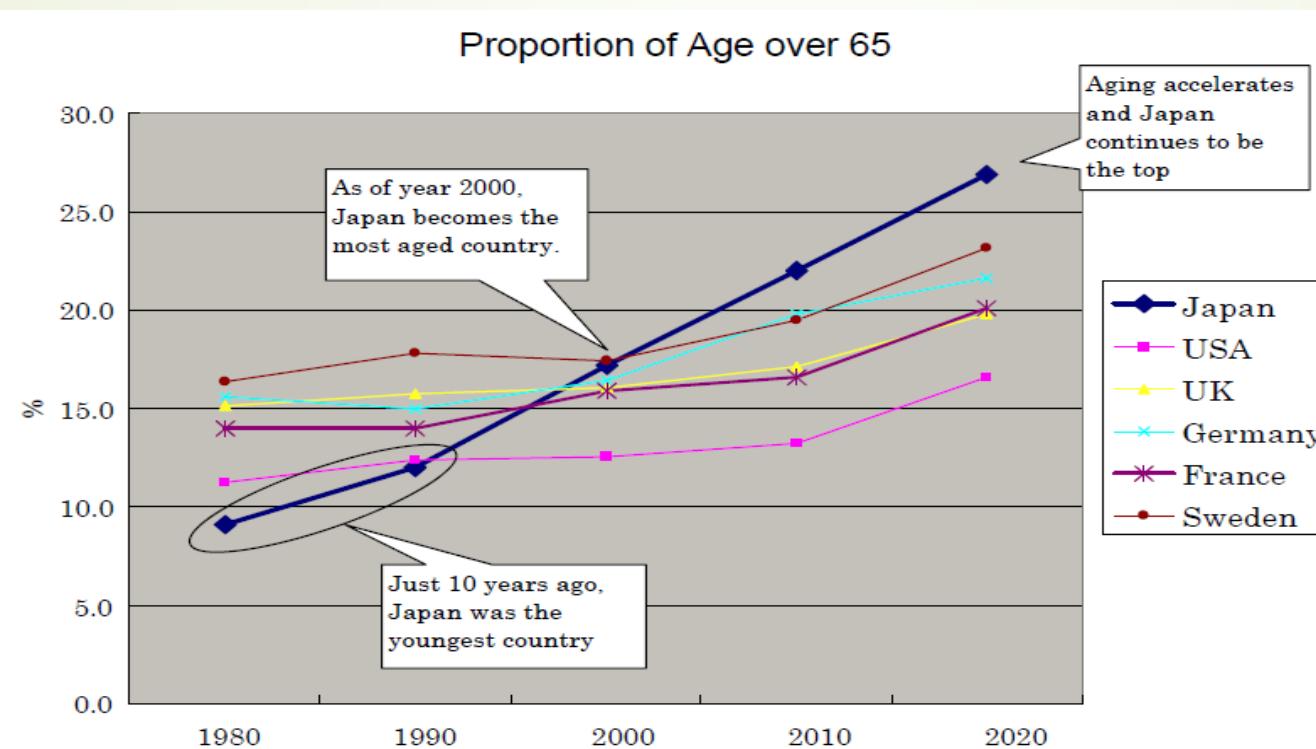
### 3. Mortgage Finance Markets in Asia-Japan

- Comparison between JHLC and JHF (Masahiro Kobayashi, 2012)

	<b>Japan Housing Loan Finance (JHLF)</b>	<b>Japan Housing Finance (JHF)</b>
<b>Established</b>	1950	2007
<b>Ownership</b>	Owned by the Japanese government	
<b>Mission</b>	1. To provide liquidity to mortgage markets 2. To enhance the housing quality of low to medium income groups	
<b>Main product</b>	Fixed rate mortgages	
<b>Main business</b>	Primary mortgage market, to compete with the private sector	Secondary mortgage market, to support the private sector
<b>Main funding source</b>	Borrowing from Government	Mortgage-based Securities
<b>Subsidy</b>	Government-funded	In principle

### 3. Mortgage Finance Markets in Asia-Japan

- Aging of the population in Japan



- Japan has reverse mortgage to help the elderly people. Kojima (2013) suggested that the reverse mortgage market was launched in Japan in 1981

### 3. Mortgage Finance Markets in Asia-Hong Kong

- Changes in Hong Kong mortgage market from 1994-2015

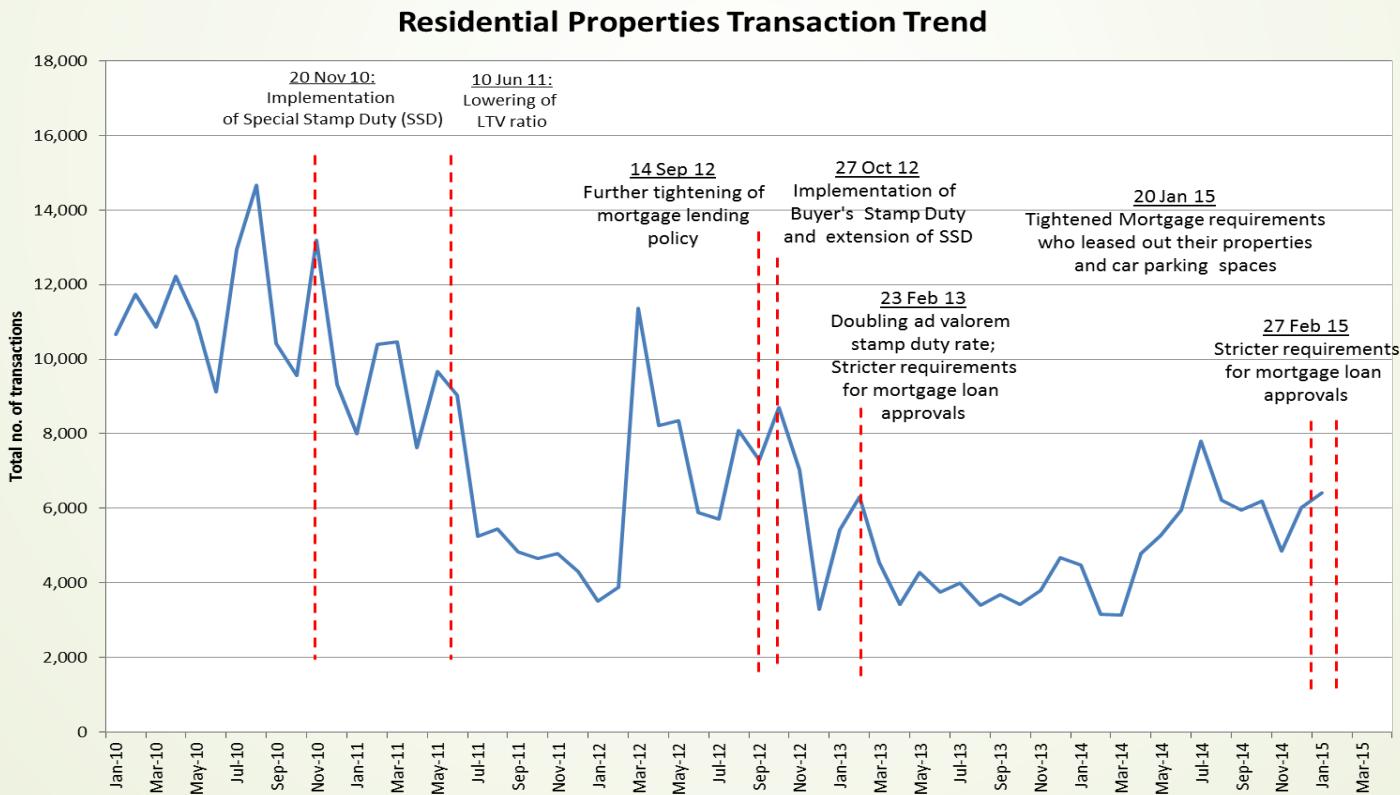
<b>Years</b>	<b>Changes</b>
<b>1997</b>	The Hong Kong Mortgage Corporation was established.
<b>2010</b>	Implementation of special stamp duty (SSD)
<b>2011</b>	The HKMC launched the Reverse Mortgage Programme to encourage banks to offer reverse mortgage to the elderly aged 55 or above. Lowered LTV ratio Implementation of buyer stamp duty and extension of SSD
<b>2012</b>	Further tightening of mortgage policy
<b>2015</b>	The Hong Kong Monetary Authority (HKMA) announced a new round of mortgage tightening measures to cool the overheated housing market The maximum loan-to-value (LTV) ratio for self-use residential properties was lowered The maximum debt-servicing ratio (DSR) for borrowers and the stressed-DSR cap was lowered. The HKMC tightened the Mortgage Insurance Programme criteria.

### 3. Mortgage Finance Markets in Asia-Hong Kong

- ▶ In 1999, the Hong Kong Monetary Authority (HKMA) promoted home ownership via the Mortgage Insurance Programme (MIP), which could lower the burden of the homebuyers' down payment.
- ▶ The HKMC introduced the Reverse Mortgage Program during 2011, which offered older individuals a new financial planning option.

### 3. Mortgage Finance Markets in Asia-Hong Kong

- Residential properties total number of transactions and changes in regulations from 2010 to 2015 (The Land Registry, 2016)



### 3. Mortgage Finance Markets in Asia-Hong Kong

- ▶ Reverse mortgage in Hong Kong

#### **Qualification for applying the reverse mortgage**

1.	Hong Kong identity card holder
2.	Aged 55 or above (or aged 60 or above for owners of subsidized sale flat such as Hong Kong Housing Society and Hong Kong Housing Authority with unpaid land premium)
3.	In absence of bankruptcy record

### 3. Mortgage Finance Markets in Asia-Thailand

- a) The Government Housing Bank (GHB) in Thailand was established in 1953, mainly issues mobilized loans for land-subdivision with a mission to secure housing finance for the public.
- b) GHB extended the short-term financing to housing project developers and long-term loans to the public.
- c) The Secondary Mortgage Corporation (SMC) was established to in 1997 with the goal of developing the secondary market for housing mortgage loan, enlarging the lending activities of the mortgage market, and establishing mortgage stability in the real estate sector

### 3. Mortgage Finance Markets in Asia-Thailand

- Changes in Thailand mortgage market from 1953-2013

Years	Changes
1953	The Government Housing Bank (GHB) was established.
1972	The Revolutionary Council established the National Housing Authority to take over dwelling project developments and transferred all GHB's rights, responsibilities, assets and liabilities.
1997	Secondary Mortgage Corporation was founded. GHB extended home loans with a repayment period of up to 3 decades and raised the loan-to-value ratio up to 90 percent to 100 percent of the appraised house value Subsidised Home Loan Scheme under Real Estate Rehabilitation Program
1999	Rollover Mortgage Loan Program
2002	SMC set up special-purpose vehicle (SPV)
2006	GHB developed the "Loans for home lovers" program, to help finance relevant appliances such as electronic goods, kitchen ware, furniture, sanitary ware etc.
2013	Banks tighten mortgage criteria by cutting loan to value ratio to prevent speculation

### 3. Mortgage Finance Markets in Asia-Korea

- a) Prior to 1996, the majority of mortgage loans were provided by public entities.
- b) Starting from 1996 however, banks were permitted to go into the long haul contract business.
- c) After a period of financial crisis, the Asset-backed Securitization Act (ABS Act) came into force in 1998, to enhance financial institutions' financial structure soundness and lower banks' burden of non-performing loans.

### 3. Mortgage Finance Markets in Asia-Korea

- d) In 1999, the Korean financial giants established Korea Mortgage Corporation to repackage mortgage loans and issue mortgage-backed securities (MBS).
- e) Given the need to provide housing finance to low and middle income earners, the Korean Housing Finance Corporation Act (KHFC Act) was passed in 2003
- f) According to the annual report of KHFC, 7.8 trillion MBS was issued in 2010.

### 3. Mortgage Finance Markets in Asia-Singapore

Changes in Singapore mortgage market from 1994-2015

Year	Changes
1960	Housing and development board set up
1960-1965	5 years building program
1974-1982	Target changed to middle-income flats
1990	Estate renewal strategy adopted
1991	The eligibility condition released
2001	The build to order system (BTO) introduced

# 3. Mortgage Finance Markets in Asia-Singapore

- Major formal institutions in Singapore's housing market

Name of the institutions	Year of establishment	Name of the scheme	Objectives	Detail of the scheme
Housing Development Board (HDB)	1960	HDB Urban Planning	To build and sell subsidised public housing	Offers mortgage loan: -up to 30 years -90% loan to value -interest rate =2.6% (CPR saving rate + 0.1%)
Central Provident Fund Board (CPF)	1955	Social security saving scheme	Collect the employees and employers contributions for retirement	Members can withdraw the funds for approved objectives, including housing finance
Commercial Banks	-----	Mortgage backed securities	To provide market interest rate mortgages to buyers	Make loans to private sector developers for investments and constructions

### 3. Mortgage Finance Markets in Asia-Singapore

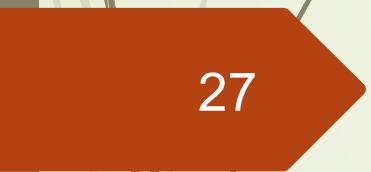
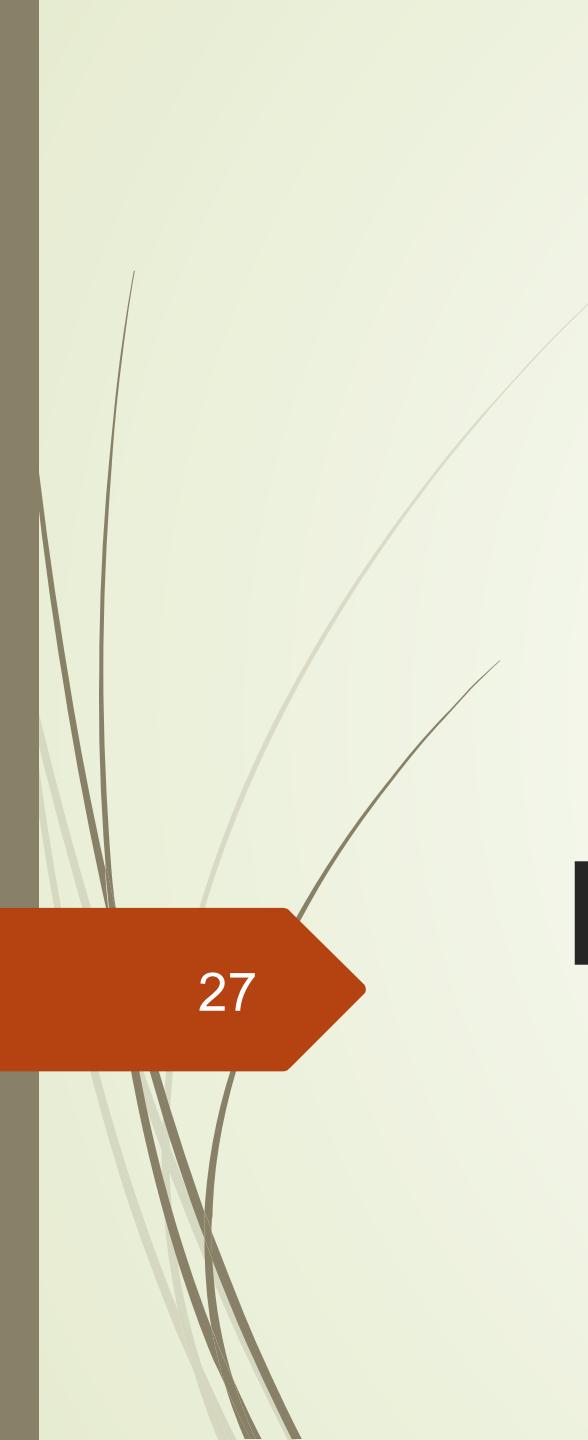
- ▶ Policies for mortgage

- a) The Singapore government introduced the “Home ownership for the people scheme” in 1964 to enable citizens to own housing assets as a means of financial security and as a hedge against inflation.
- b) Financial institutions (FIs) in Singapore are required to comply with loan-to-value (LTV) limits.
- c) The reverse mortgage in Singapore and found that it could reduce the payment burden for elderly people

### 3. Mortgage Finance Markets in Asia-Singapore

- ▶ Institutions for mortgage

- a) Starting from 1960, the Housing and development board (HDB) was set to construct and deal with people in general lodging. The Singapore government began to focus on the lodging program.
- b) The Central Provide Fund (CPF), and Housing and Development Board (HDB) play major roles in government housing loan. It's a compulsory monthly payment scheme for financing homeowners' mortgage payment.



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**End**