Attributes of Housing Loans by Regional Banks

(Summary)

This paper compiles a detail picture of the housing loans extended by regional banks, using granular loan data collected by the Common Data Platform. It is confirmed that there are regional differences in interest rate types and levels. In addition, it is observed that transaction volumes and lending periods per loan are growing, which may lead to higher risks. The FSA will continue to enhance its capability to utilize granular data to better understand the actual pictures of housing loans and their trends.

I. Introduction

The environment surrounding Japanese housing loan market has been changing recently. The prolonged low-interest rate environment has shifted more borrowers to prefer floating interest rates, drawing more attention to the impact of recent interest rate hike. It is important to get update of the actual pictures of housing loan attributes in a more detailed manner.

Figure 1: Outstanding domestic housing loans

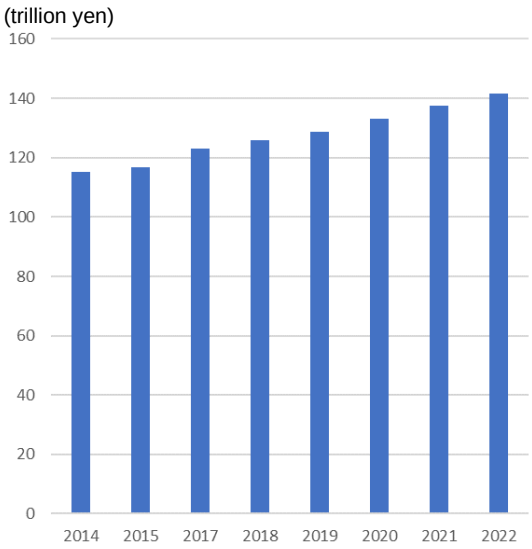
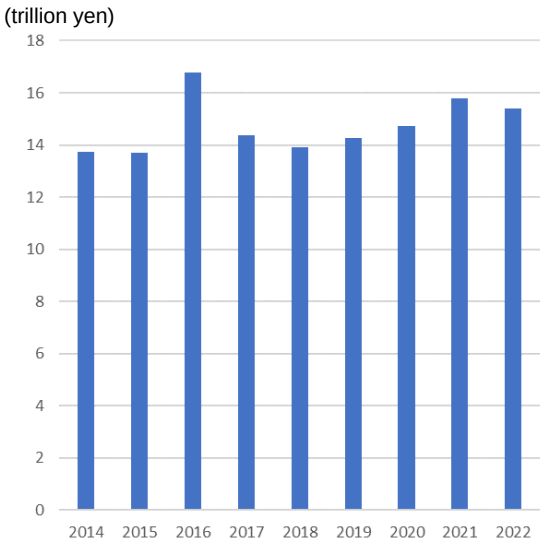


Figure 2: Transaction volume of new housing loans



Source: Bank of Japan

Figure 3: Market interest rates

Source: Bank of Japan, Ministry of Finance

Figure 4: Distribution of interest rate type[1] (newly originated housing loans)

Source: MLIT

This paper uses the data on reginal banks' housing loans obtained from the Common Data Platform[2], a novel data collection and management framework jointly operated by the FSA and the Bank of Japan. Housing loans, which account for the largest proportion of retail loans, are aggregated by, for example, region, interest rate types and levels, and usage of guarantees. By focusing on the time when loans are originated, a time-series picture of transaction volume and lending period per each loan are also examined.

[1] Interest rate type which contains fixed rate for certain period during the contract is treated as fixed interest rate.
[2] The data used in this analysis is the outstanding loan data as of September 2023 submitted by a total of 99 banks, consisting of 62 member banks of the Regional Banks Association of Japan and 37 member banks of the Second Association of Regional Banks. In addition to loans that are explicitly defined as housing loans in the dataset, loans that can be presumed to be housing loans based on their conditions such as transaction volume, interest rate level, and lending period are estimated as housing loans. These estimates were confirmed to be within a range of the existing dataset. Although a few banks are excluded due to their data accuracy for some data items, their impact on the overall trends of the regional banks is expected to be limited.

II. Housing loan characteristics as of September 2023

This section focuses on the housing loan characteristics by region[3] as of September 2023.

Figures 5 and 6 show the outstanding transaction volume and number of regional banks' housing loans, respectively. The total transaction volume for all regions was 76.3 trillion yen[4], while the number of housing loans was 4.36 million. Both the transaction volume and the number of housing loans show similar regional trends, with the Kanto region having the highest proportion of approximately 25%, followed by the Kinki and Chubu regions with approximately 15% each.

Figure 5: Total housing loan volume by region

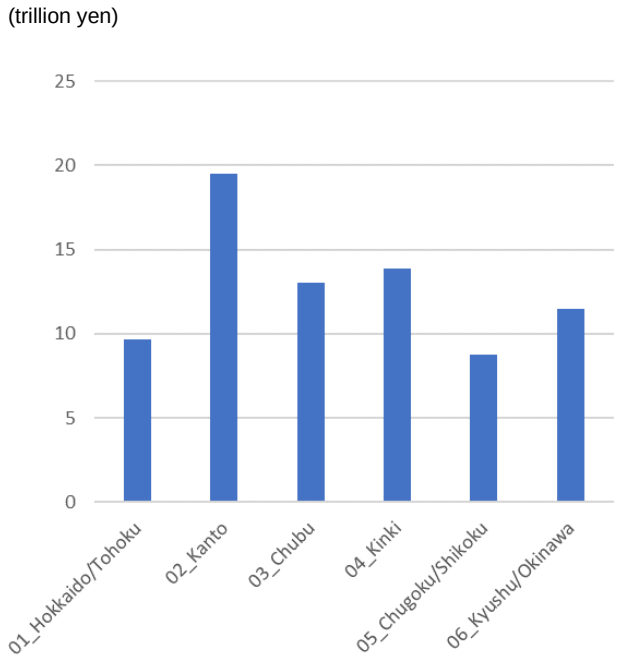


Figure 6: Total number of housing loans by region

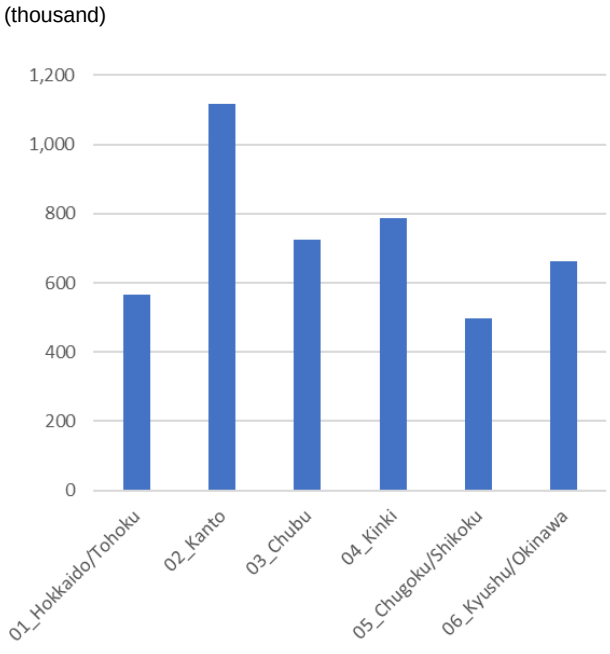


Figure 7 shows the regional distribution by interest type, i.e., fixed rate or variable rate. The regions with relatively high ratios of fixed interest rates are Hokkaido/Tohoku and Chugoku/Shikoku, while the regions with relatively high ratios of variable rates are Kinki and Kyushu/Okinawa. It should be noted

[3] The geographic segments are as follows:
Hokkaido/Tohoku: Hokkaido, Aomori, Iwate, Miyagi, Akita, Yamagata, Fukushima
Kanto: Ibaraki, Tochigi, Gunma, Saitama, Chiba, Tokyo, Kanagawa
Chubu: Niigata, Yamanashi, Toyama, Ishikawa, Fukui, Nagano, Gifu, Shizuoka, Aichi
Kinki: Mie, Shiga, Kyoto, Osaka, Hyogo, Nara, Wakayama
Chugoku/Shikoku: Tottori, Shimane, Okayama, Hiroshima, Yamaguchi, Tokushima, Kagawa, Ehime, Kochi
Kyushu/Okinawa: Fukuoka, Saga, Nagasaki, Kumamoto, Oita, Miyazaki, Kagoshima, Okinawa

[4] The outstanding amount of housing loans extended by all domestic banks is about 144 trillion yen, meaning that the amount of housing loans extended by regional banks accounts for about 53% of the domestic total.

that some regions have a certain proportion of “missing (lack of data)” due to the data limitation[5] as of September 2023. Continuous improvement in data collection is required.

Figure 8 shows the regional distribution of interest rate levels. Overall, sizable proportion of housing loans have the interest rates between 0.5% and 1.0%. Hokkaido/Tohoku and Chugoku/Shikoku regions have relatively large percentage of high interest rates (1.0% and above), similar to the trend observed in Figure 7. In particular, the proportion of interest rates between 1.0% and 1.5% is highest in Hokkaido/Tohoku, while the proportion of low interest rates (below 0.5%) is highest in Chubu and Kinki regions.

Figure 7: Distribution by interest rate types

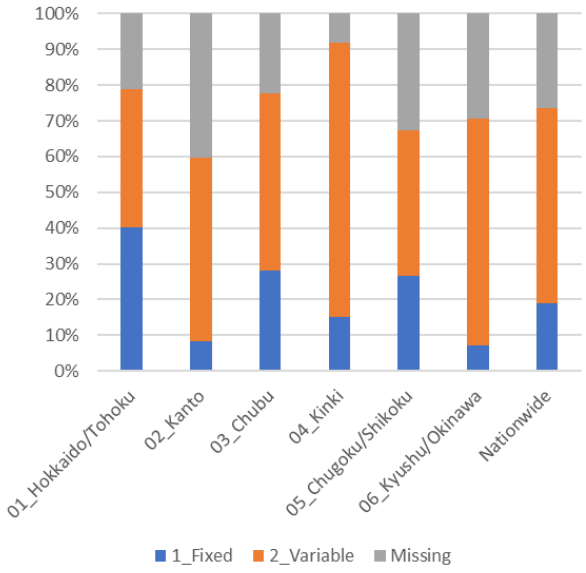


Figure 8: Distribution by interest rate levels

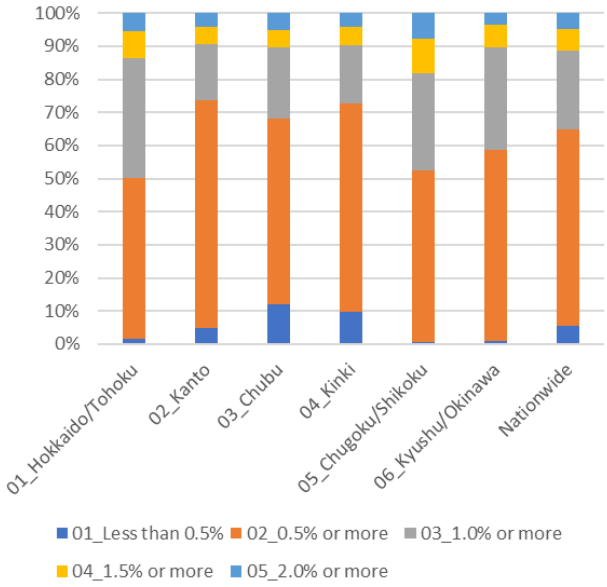
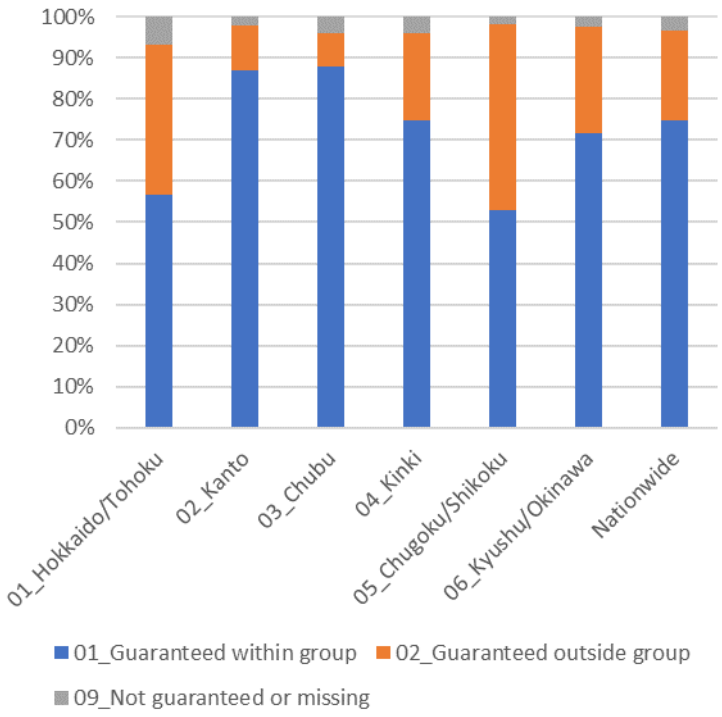


Figure 9 shows the distribution sorted by guarantee-types. As a whole, most of the loans are guaranteed, and the ratio of loans with no guarantee is around 5%. Guarantee companies are broadly classified into companies within the banking group or outside, i.e., independent companies. On the transaction volume basis, approximately 70% of loans are guaranteed within the group and approximately 20% are guaranteed by independent companies, while regional differences are observed.

[5] The Common Data Platform is scheduled to commence its full operation from March 2025, and it is in the stage of gradually expanding data, with some items being optional at present. The lack of data is confirmed for some items in this analysis, but this seems to have limited impact on the overall picture of housing loans at regional banks.

Figure 9: Distribution by guarantee-types (transaction volume basis)

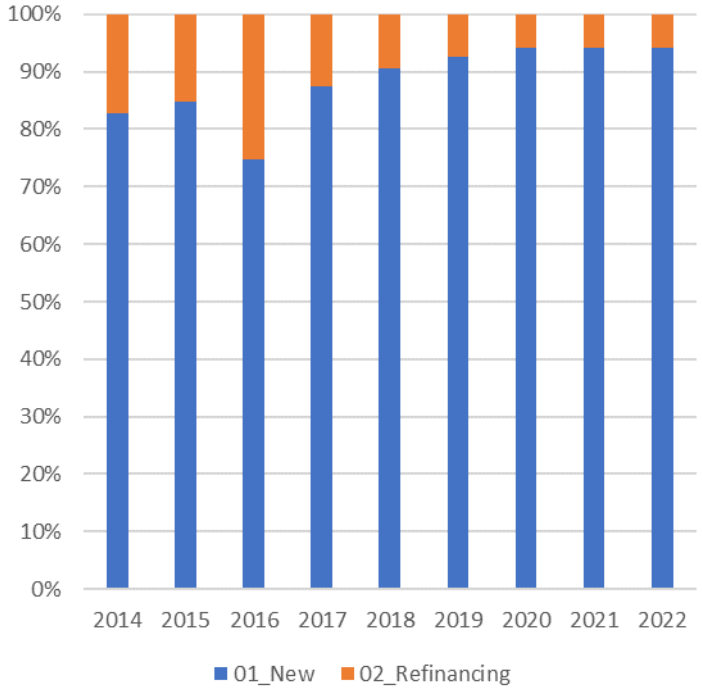


III. Trend of New Origination

In this section, newly originated housing loans (hereinafter “new loans”) are examined by year of origination and region. It should be noted that the data available from the Common Data Platform is only the list of existing loans as of September 2023 or later, thus the claims which have been fully repaid or substituted by another payment before September 2023 have disappeared from the available dataset[6]. However, since housing loans in general have long lending periods and refinancing has been low in recent years (Figure 10), it is expected that a general trend of new origination can be grasped even from the aggregation of claims remaining in the dataset as of September 2023.

[6] For example, a housing loan which was originated in April 2016 but fully repaid in January 2023 does not appear in the dataset.

Figure 10: Proportion of loans executed for refinancing purpose



Source: MLIT

Figure 11 shows the distribution of new loans in terms of the transaction volume per case. While the proportion of new loans ranging from 10 million to less than 30 million yen decreased, that ranging from 40 million to less than 100 million yen increased. The ratio of new loans of 100 million yen and more also increased, albeit still at a low level, suggesting that changes in the macro environment, such as sharp rises in real estate prices, labor costs, and material costs, may have had an impact on such volume increase.

Figure 12 shows the trend of the average transaction volume per case of new loans by region. It indicates that the average volume has been increasing in all regions, particularly in Chubu and Chugoku/Shikoku regions. This is partly due to some financial institutions' increasing "cross-border (in terms of prefectures)"[7] loans to urban areas where real estate prices are relatively high.

[7] Cross-border loans are defined as loans extended to outside the prefecture where the head office of the financial institution is located.

Figure 11: Volume distribution of new loans

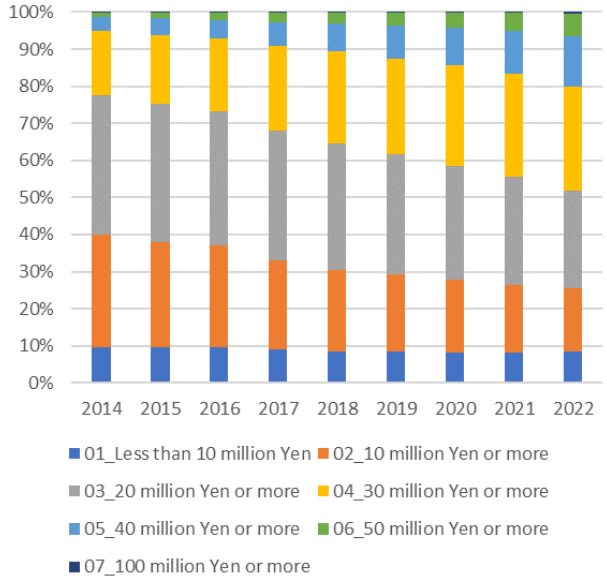


Figure 12[8]: Average volume trend by region

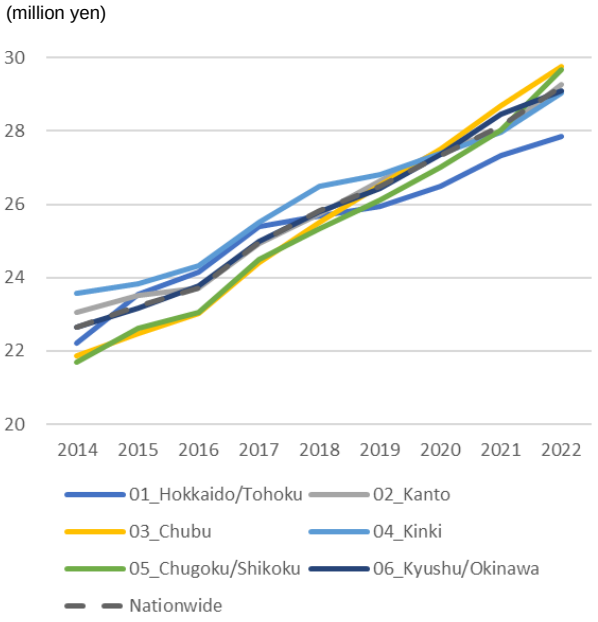


Figure 13 shows the distribution of lending period for new loans in each year. The ratio for loans with a lending period of 30 years or less is decreasing, while that of more than 30 years is increasing, particularly that of more than 35 years but less than 40 years is remarkable. The proportion of new loans with a lending period of more than 40 years is also increasing, albeit still at a low level.

Figure 14 shows the trend of the average lending period for new loans by region, which shows that the average lending period has become longer in all regions, especially in Kyushu/Okinawa.

Figure 13: Lending period distribution of new loans

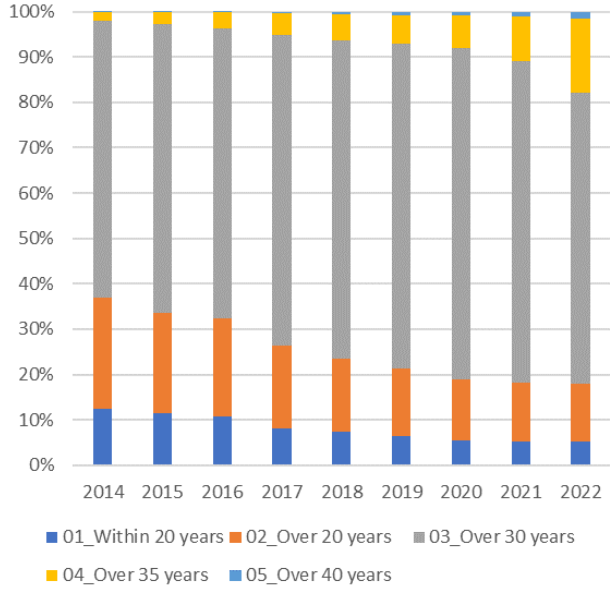
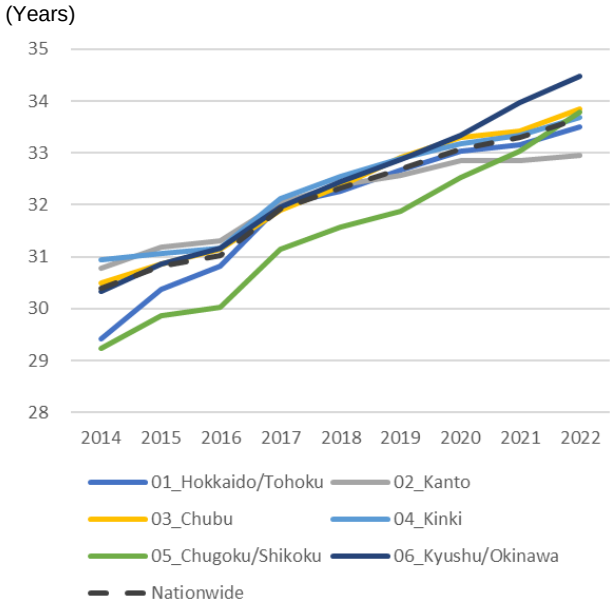


Figure 14: Average lending period trend by region



[8] Due to data limitation at present, the data of the member of the Second Association of Regional Banks is excluded.

Figures 15 and 16 show the transaction volume per case and lending period, respectively, for new loans extended between April and September 2023. The regional distribution of transaction volume shows a similar trend nationwide, with the highest ratio being in the range of 20-30 million yen, followed by 10-20 million and 30-40 million.

Looking at the distribution of lending period by region shown in Figure 16, the proportion of loans with a lending period of more than 30 years but within 35 years is high in Kanto and Kinki. On the other hand, in Hokkaido/Tohoku, Chugoku/Shikoku, and Kyushu/Okinawa, the proportion of loans with a lending period of more than 35 years is high, particularly that of more than 40 years is approaching 10% in Chugoku/Shikoku, and Kyushu/Okinawa.

Figure 15[9]: Distribution of new loans' transaction volume in 2023

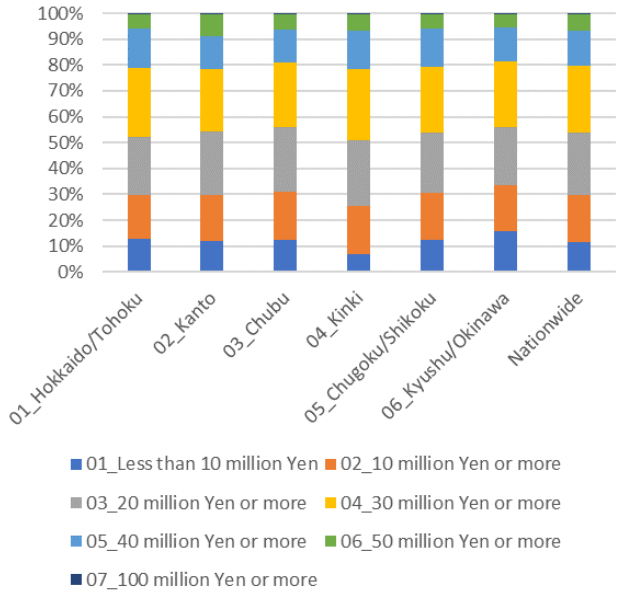
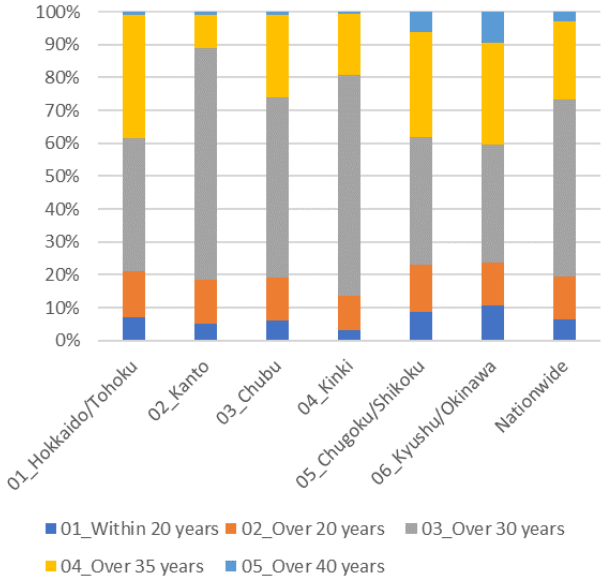


Figure 16: Distribution of new loans' lending period in 2023

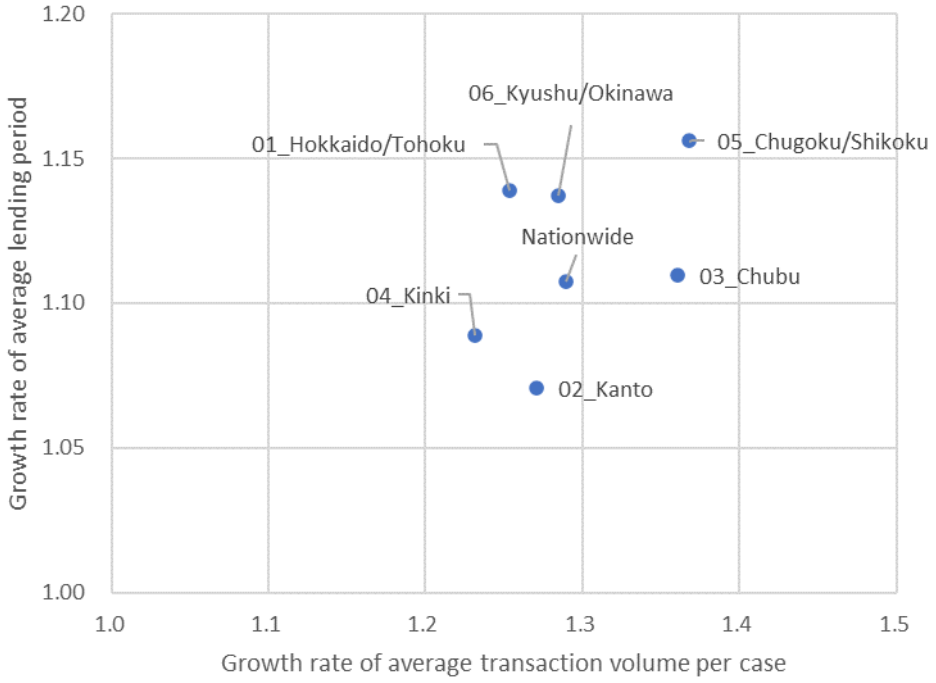


In general, the larger transaction volume and the longer lending period contribute to an increase in housing loan risk, although the borrowers' creditworthiness may vary depending on other factors such as annual income of borrowers. Figure 17 shows plots of the growth rate of the average transaction volume and that of the average lending period in 2022 against 2014 for each region. In contrast to the relatively low transaction volume growth in Hokkaido/Tohoku and Kyushu/Okinawa, the lending period has shown relatively high growth, which may be attributed to the appeal of housing loans to younger generation. In Chugoku/Shikoku, both the transaction volume and the lending period increased

[9] Due to data limitation at present, the data of the member of the Second Association of Regional Banks is excluded.

significantly, and in Chubu, the growth rate of the transaction volume was relatively high. While Kanto and Kinki show the relatively low transaction volume and the lending period growth, the overall trend of housing loans in these regions are expected to be different as the number of borrowers who borrow from major banks and online based banks is expected to be relatively large in these regions.

Figure 17: Transaction volume growth and lending period growth



IV. Conclusion

In this analysis, housing loans were analyzed with the use of the granular data from the Common Data Platform.

The interest rate level was mostly in the range of 0.5% to 1.0% in all regions. However, regional differences were observed, for example, relatively large proportion of fixed-rate loans were seen in some regions. As for new loans, both the transaction volume and the lending period per case were on the rise, suggesting that risks may be expanding. Continuous monitoring on these trends is necessary.

It should be noted that this analysis is subject to data limitations, such as deficiencies in some data items because the Common Data Platform is still at the gradual operation phase. In addition, it is

difficult to accurately classify whether loans recorded in the dataset are new loans or loans refinanced by other banks. In recent years, refinancing activity has been weak due to the moderate interest rate fluctuations. However, depending on the future interest rate trends, refinancing may increase as seen at the time of the introduction of negative interest rates in 2016. In these times, there may be a gap between the aggregate figures and the actual trend of new loans.

Loan to value (LTV) ratio and debt to income (DTI) ratio are usually used as indicators of housing loan exposure, however, it is currently difficult to directly calculate these indicators from the dataset from the Common Data Platform. One of the potential future issues to be addressed may be combining the data with macro-economic data such as land prices to obtain useful indications around risks of loan exposures.

In addition, it should be recalled that this analysis covers only regional banks due to data limitations, thus the figures in this paper may not fully capture the overall domestic housing loan trends. In Japan, many other financial institutions, such as major banks and online based banks, are also active in the housing loan market.

The FSA will continue to improve the data accuracy of the Common Data Platform and deepen its understanding of housing loan trends and risks to enhance its monitoring capabilities.