

Jusen - The Task Before Us

By Hamano Takayoshi

The *jusen* (housing loan company) bailout measures adopted by the government at the end of 1995 turned into a serious political issue at the start of the year and have received substantial coverage in the mass media since. The rough going Diet deliberation over the *jusen* issue resulted in a show of great civic discontent and outrage.

This issue has also attracted considerable attention overseas due to fears that if Japan errs in its methods of handling the problem it will negatively affect not only Japan's economy, but the global financial situation.

I would like to review the issues highlighted by the *jusen* problem and investigate what the implications for the future might be.

Amount in question: ¥685 billion

Before discussing the gist of the issue I would briefly like to review the history of the housing loan companies from their establishment to the present. The *jusen* were founded by banks, insurance companies, and securities firms in the 1970s to specialize in individual home mortgages. There are eight firms in all and, of these, the seven carrying the most bad debts are the targets of clean-up efforts. When the *jusen* were established, primarily mid-size or smaller banks were already handling individual home loans, but there was a need to promote improvements in Japan's lagging housing market and this sector also required specialized expertise and experience that differed from loans targeted at ordinary companies. Since city banks had their hands full with corporate lending, the purpose of the *jusen* and their focus on mortgage lending came to be stressed. However, in an abrupt reversal of circumstances, city banks and the

banks that had themselves set up the *jusen* soon began making concerted efforts to enter the housing loan sector. The *jusen* charged higher interest on their loans because they did not accept deposits, instead loaning funds they had borrowed from banks and other financial institutions, and thus were not equal to the challenge from banks.

The *jusen* consequently diverged from the purpose for which they had originally been established and sought an escape route in real estate-related loans. This change of tack coincided with the speculative "bubble" economy of the latter 1980s. When the directors of the Ministry of Finance and the Ministry of Agriculture, Forestry and Fisheries issued a joint communique in favor of restrictions on property loans in March 1990 financial institutions affiliated with *nokyo* (agricultural co-ops) were inexplicably exempted from loan situation reporting duties. Using this loophole, *nokyo*-affiliated funds were sluiced through the *jusen* as loans to the real estate industry. By 1991, loans concentrated on business in the real estate industry, making up nearly 80% of all of the mortgage lenders' total business.

But the bursting of the bubble led to collapsing land prices and huge

amounts of bad debts connected with loans to the real estate industry, engulfing the *jusen* in an imminent threat of insolvency. In response, the government decided to cover the immediate costs that would be incurred in cleaning up the seven *jusen*, mainly consisting of ¥685 billion (approximately \$6.5 billion) in "primary" losses that weakly managed *nokyo*-affiliated financial institutions could not carry, using public funds. It would take one person around 1,800 years, spending \$10,000 a day, to rack up this gigantic sum. Talk also has it that this will come to ¥5,500 (around \$50) per resident of Japan, but it is believed that the public's burden will not end here, because the seven lenders' debts will become irrecoverable after the bailout winds up, so there may be cases in which frozen losses lead to additional encumbrances. After the seven *jusen* have been dissolved, a new firm, the *Jusen Resolution Corporation*, is to take on their ¥6.78 trillion in assets, but there are predictions of at least ¥1.24 trillion in new, "secondary" losses, whose resolution was postponed, on top of the losses the government initially envisioned. As far as the disposition of these secondary losses is concerned, the government has already decided to adopt the position that the nation should cover half the loss, meaning that taxes would also pay for this amount of just over ¥600 billion (about \$6 billion). The per person levy appears set to exceed ¥10,000 (about \$95) and at this stage there is no predicting how much more this burden will increase. These *jusen* bailout strategies have left us several issues.

Issue 1: debt recovery

Above all, attempts must be made to recover as many of the loans as possible. To start with, money borrowed is supposed



to be repaid. Under the government's debt collection plan, the Jusen Resolution Corporation will be supervised and advised by the national government's Deposit Insurance Corporation.

There have been reports of express plans to strengthen Deposit Insurance Corporation debt collection capabilities through concentrated investment in judicial, prosecutorial, police, and other employees. But many of the bad debts carried by the jusen are reputed to be enveloped in claims. There are also not a few rumors circulating of yakuza involvement and reports of these stories in the U.S. have attracted international scrutiny. Even so, as mentioned above, to date there has been little or no effort to expose these unsavory aspects and they remain muffled in darkness. Until these murky details are cleared up one can hardly expect that this tax burden will be accepted.

On this point, the Resolution Trust Corporation, which disposed of bad savings and loan institution debts in the U.S., indicted more than 2,000 Savings & Loans managers for hiding assets, embezzlement, fraud, and other crimes, obtaining convictions in nearly every case. Although it hardly appears that the U.S. managed to resolve the problem with ease, it should serve as a good example.

Issue 2: clarification of responsibilities

Exactly who was it that created a situation in which private companies' losses are to be paid for with taxes?

Naturally, some have begun to strongly insist that those people take responsibility. However, while it is easy to say "responsibility," various legal (criminal and civil), political, and moral responsibilities are involved. As far as the administration of appropriate criminal penalties and criminal responsibilities go, those responsible can only be left to the arm of the law. That leaves clarification of the remaining responsibilities. The resolution of these points in accordance with legal steps would be most



Handling the jusen crisis with tax-payers' money brings protesters to the Diet.

straightforward, but failing that it becomes quite difficult. For example, government authorities have committed errors in policy decisions, financial institutions, including those affiliated with the agricultural cooperatives, were too optimistic in their forecasts, and the jusen management had lax attitudes, so how blame should be apportioned is a moot question. Of the preceding, one policy mistake made by the authorities was the considerable sum of public funds invested in the economic recovery on the premise that land prices would have to hit bottom and begin to rise again. This may not have been the only factor, but steps that should have been taken were deferred, with the consequence that the cost of resolving the jusen problem ballooned. Failing an accurate assessment of the responsibility for these problems, eliminating public discontent is not likely.

Issue 3: reforming Japan's financial regulations

The incident involving Daiwa Bank's New York branch, in which resolution of the matter involved a determination of criminal conduct and which, in the end, led to Daiwa being banned from conducting any business in the U.S., was a major story that preceded the jusen issue.

What this had in common with the

jusen issue was the opacity of the efforts to resolve the problem that had arisen. In both instances the Ministry of Finance, charged with fiscal oversight, has been targeted for criticism for stonewalling and delaying disclosure. Attempting to handle a problem by attempting not to expose it to the outside world, when criminal activity is uncovered and management's malfeasance has become clear, is a Japanese trait that is unacceptable in international society.

From here on Japan must also abide by international rules and financial institutions must make full disclosure. If cases of insufficient oversight or financial collapse are involved we must be able to scrutinize management's responsibility and, further, from an administrative standpoint, reforms that include the development of a system that permits financial institutions free movement, but conversely allows such responsibility to be assigned are essential.

The jusen problem has provided Japan with an excellent opportunity to face the pressing need to bring its financial regulations into line with those of the international community.

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