

Presentation to MIK — Achieving Sustainable Housing Finance Framework in Mongolia



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International Affairs Group
International Affairs and Research Department
Japan Housing Finance Agency



Part I
Insights from
Japan
Housing
Finance
Experience

1. Development of Housing Performance Standards in Japan

- Lessons learned from establishing robust housing performance benchmarks

2. Enhancing housing quality through housing finance

- The role of housing finance in driving improvements in housing quality

3. Green housing finance initiatives by Japan Housing Finance Agency

- Promoting sustainable and environmentally friendly housing solutions

1. Development of Housing Performance Standards in Japan

Introduction of Housing Performance Standard

- The Housing Performance Standard in Japan refers to a set of regulations and guidelines designed to ensure the quality, safety, and sustainability of residential buildings
- These standards were introduced to promote high-quality housing, improve residential safety, and address issues such as disaster resilience, energy efficiency, and environmental sustainability

1945 -1950s

- After **the WWII**, Japan faced a severe housing shortage
- Lack of standardized housing performance criteria hindered safety, durability, and comfort



1960s – 1990s

- Rapid economic growth and urbanization increased the demand for better housing
- **The Great Hanshin-Awaji Earthquake (1995)** revealed vulnerabilities against earthquakes



2000 - Present

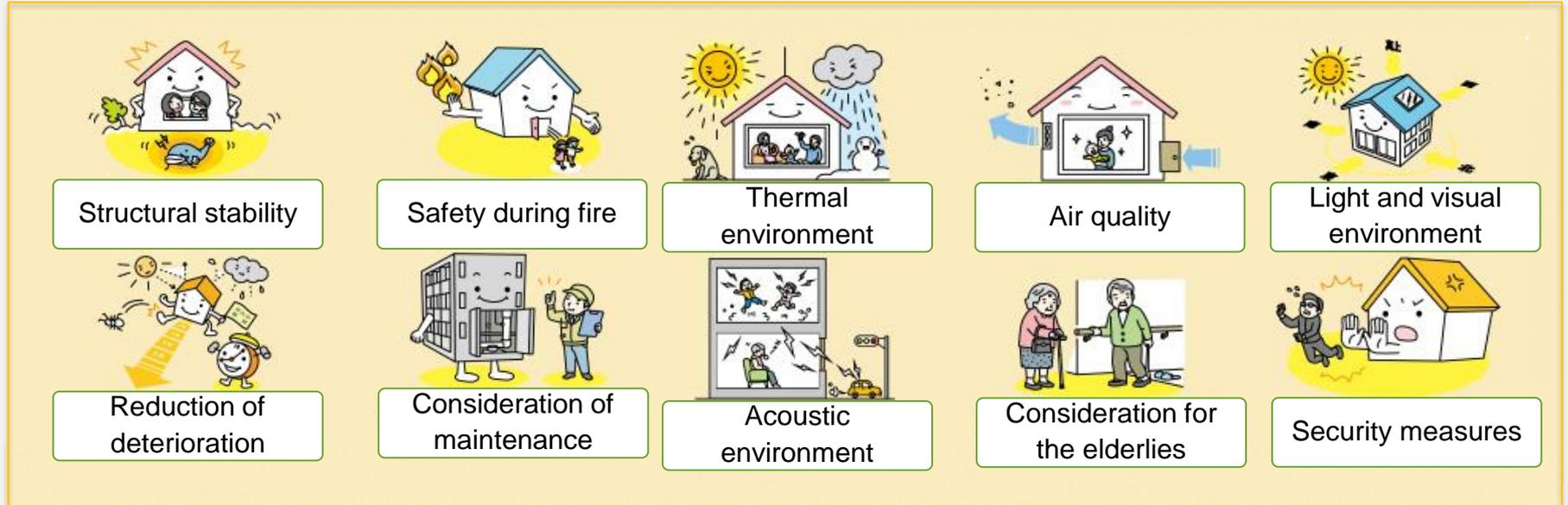
- **Housing Quality Assurance Act (HQAA)** was introduced to achieve higher-quality housing
- **HQAA** established **Housing Performance Indication System**, a standardized framework for evaluating housing performance
- The System was **expanded to include existing homes in 2002**

1. Development of Housing Performance Standards in Japan

Effective since April 1, 2000

- The aim of **Housing Performance Indication System** was to **establish a housing market in which individuals can confidently purchase high-quality housing**
- Although **the System is voluntary**, many developers and builders participate to demonstrate the quality of their housing and gain a competitive advantage in the market

10 key evaluation criteria of measuring housing performance



Source: The Association for Evaluating and Labeling Housing Performance

1. Development of Housing Performance Standards in Japan

Third party evaluation

- Housing performance is **assessed by registered third-party evaluation organizations certified by the Ministry of Land, Infrastructure, Transport and Tourism (MLIT)**
- This ensures transparency and impartiality in the evaluation process

Housing Performance Evaluation Report

- Homes that meet the standards are issued a **Housing Performance Evaluation Report**, which can be used during transactions such as sales or purchases to provide assurance to buyers

Benefit of receiving the Housing Performance Evaluation Report

- Homeowners holding the Report are **qualified to apply for dispute resolution through the Designated Housing Dispute Resolution Body**, a local bar association
- The Designated Housing Dispute Resolution Body will handle the case to achieve resolution
- Homeowners holding the Report are **eligible for discounts on earthquake insurance premiums**

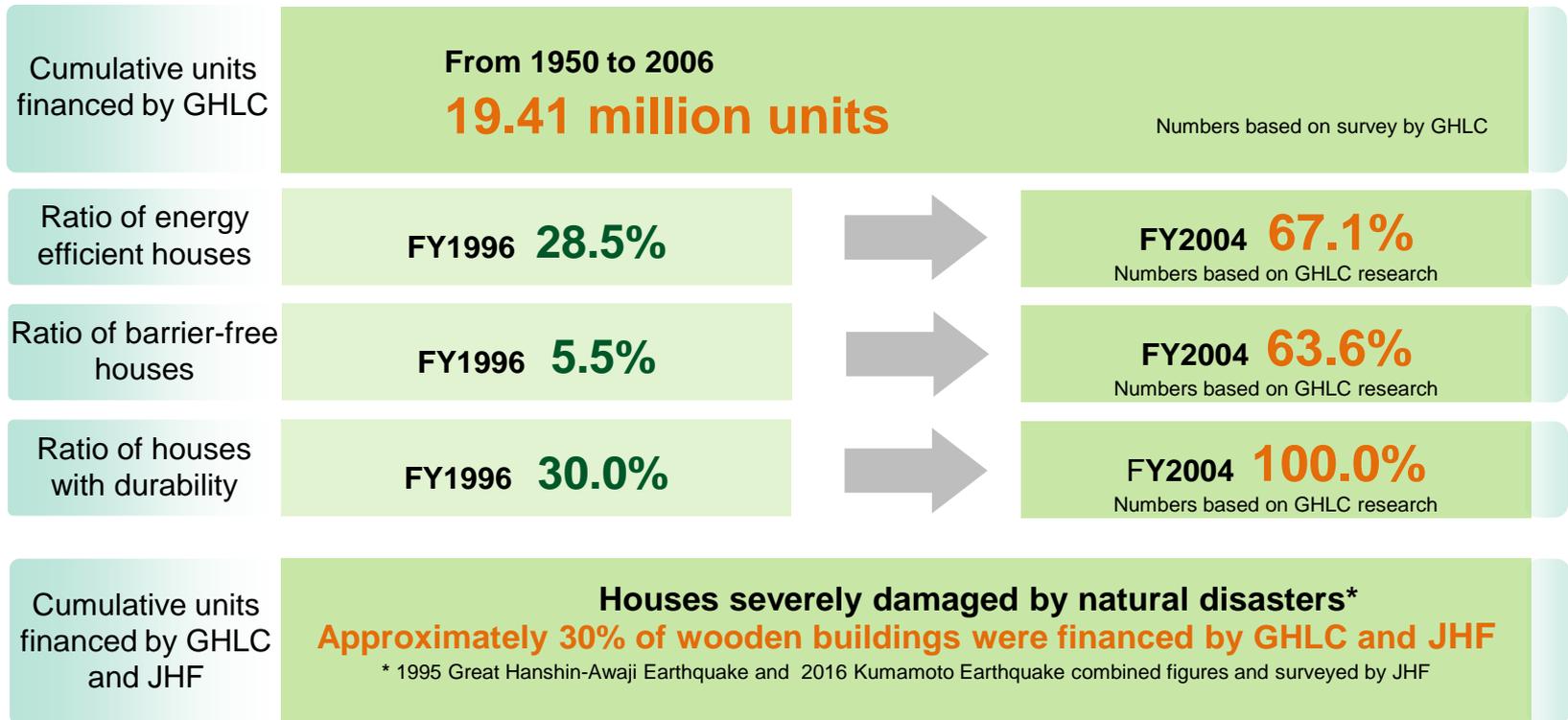
Seismic Isolation Building Discount		50% discount applicable
Seismic Grade Discounts (Prevention of Structural Collapse)	Seismic Grade 3	50% discount applicable
	Seismic Grade 2	30% discount applicable
	Seismic Grade 1	10% discount applicable

Source: The Association for Evaluating and Labeling Housing Performance

2. Enhancing housing quality through housing finance

Government Housing Loan Corporation was established to assist homeownership

- The Government Housing Loan Corporation (GHLC) was a government-owned financial institution in Japan established to promote homeownership and improve housing quality in the post-war era
- GHLC played a critical role in supporting Japan's housing market for several decades before being restructured into the Japan Housing Finance Agency (JHF) in 2007



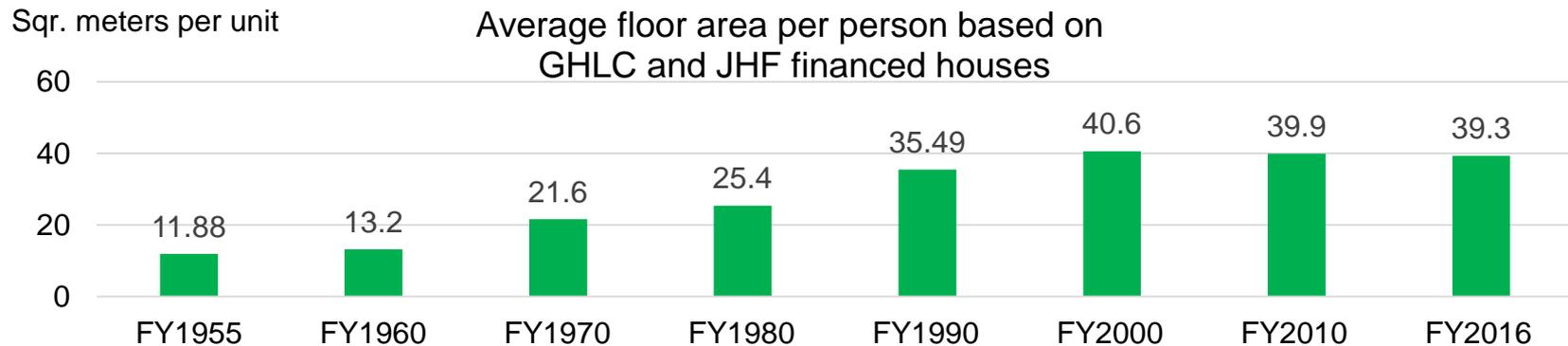
Source: JHF

2. Enhancing housing quality through housing finance

Housing Construction 5-year Programs and Basic Plan for Housing Life

- Two frameworks were established by the Japanese Government to address housing and living conditions in Japan
- Government Housing Loan Corporation and Japan Housing Finance Agency have been providing housing loans accordingly to these frameworks and have been promoting modernization of housing quality

Framework	Housing Construction 5-year Programs	Basic Plan for Housing Life
Focus	Quantity of housing	Quality of housing and living life
Timeframe	1966 – 2006	2006 – Present
Key objective	Address housing shortages	Improve quality of life and sustainability



- Graph is based on number of detached houses built by individuals and financed between FY1960 and FY2000
- Numbers are from all regions in Japan

2. Enhancing housing quality through housing finance

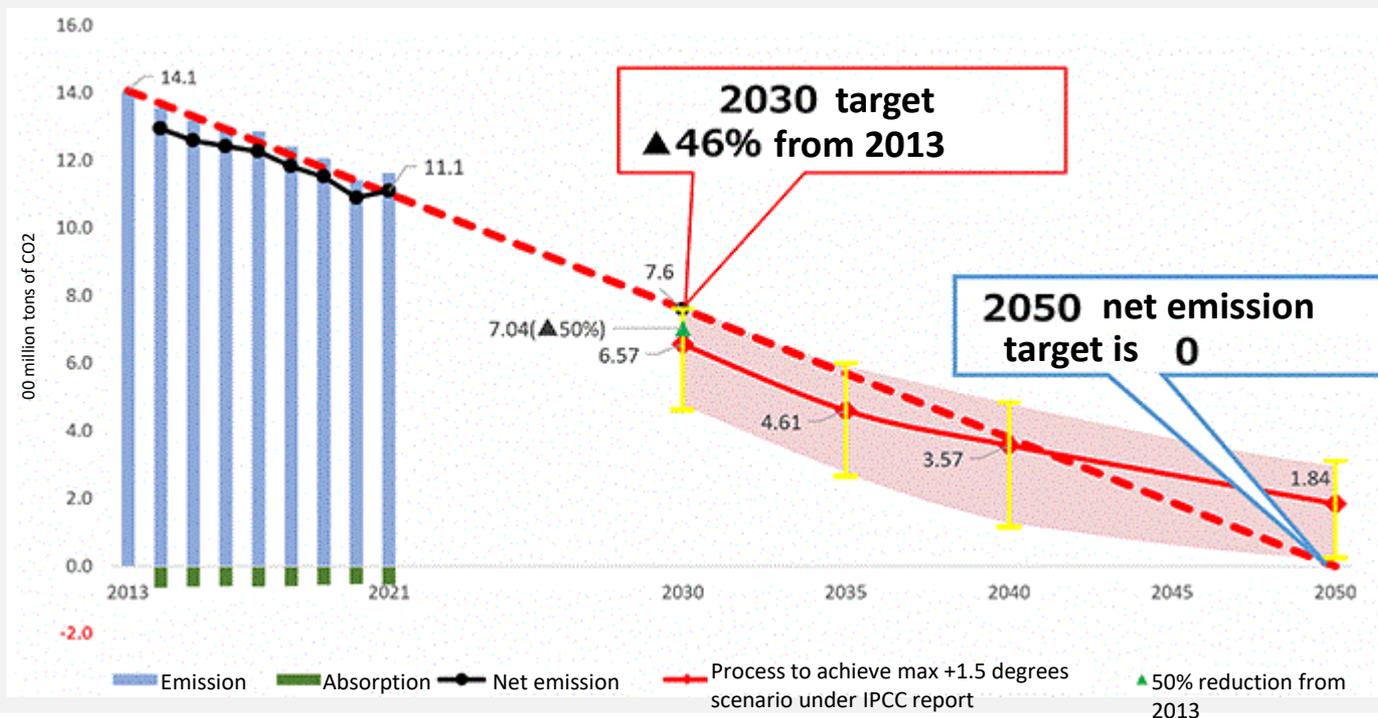
Housing loans provided by Government Housing Loan Corporation

- Lending criteria evolved pursuant to the housing policies determined by the Japanese Government

	1950 Economic recovery period	1954 High economic growth period	1965 High economic growth period	1975 Stable economic growth period
Annual Income standards	FY1950 -	FY1954 -		FY1973
Annual Income requirement	> 7 times the repayment amount	> 6 times the repayment amount		> 5 times the repayment amount
Loan repayment period	FY1950 - FY 1951 -			FY1978 FY2006
Tenor	Max. 15 years Max. 18 years			Max. 25 years Max. 35 years
Loan to Value	FY1950 - FY 1951 -		FY1969 -	
Max.	75% Generally 80%		Varied according to the specification of the house and the geographical area and others	
Eligible floor size	FY1950 -		FY1965 -	FY1974 -
Range	30 - 100 sqr. Meters		30 - 120 sqr. Meters	30 -150 sqr. meters Conditions apply

3. Green housing finance initiatives by Japan Housing Finance Agency

Japanese Government's CO2 reduction scenario by 2050



CO2 emission amount by energy origin FY2022	Sectors	million tons CO2	Share
	Industrial	352	37%
	Transportation	192	20%
	Other businesses	179	19%
	Household	158	16%
	Energy transformation	82.4	9%

3. Green housing finance initiatives by Japan Housing Finance Agency

MLIT GX initiatives to promote decarbonization in housing and buildings

Promoting energy efficiency and CO2 reduction in housing and buildings

- Based on the Building Energy Efficiency Act (revised in June 2022), **compliance with energy-saving standards will be made mandatory for all new residential and non-residential buildings starting in fiscal year 2025**

Before the Act revision		
Floor size	Non-residential	Residential
> 2,000 m ²	Mandatory	Report
Mid size	Mandatory	Report
300 m ² >	Explanatory	Explanatory



After the Act revision		
Floor size	Non-residential	Residential
> 2,000 m ²	Mandatory	Mandatory
Mid size	Mandatory	Mandatory
300 m ² >	Mandatory	Mandatory

- In collaboration with relevant ministries, support will be provided for the promotion of **Net Zero Energy House (ZEH)** and **Net Zero Energy Building (ZEB)**, as well as energy-efficient renovations
- Efforts will be made to promote CO2 reduction throughout the entire lifecycle of buildings

Promoting the use of wood in housing and buildings

- Measures will be implemented to rationalize building standards and provide support for high-quality medium- to large-scale wooden buildings

JHF's Flat 35 and JHF's Green labeled Flat 35 Mortgage applicable after April 2025

Thermal insulation performance	Grade 1	Grade 2	Grade 3	Grade 4	Grade 5	Grade 6	Grade 7
Primary energy consumption amount performance	Grade 1	N/A	Grade 3	Grade 4	Grade 5	Grade 6	

Energy efficiency standard

Green labeled Flat 35

3. Green housing finance initiatives by Japan Housing Finance Agency

Fulfillment of the four core components under Green Bond Principal

1. Use of proceeds

- Use of proceeds is stated in the explanatory materials for investors
- Use of proceeds falls into the category of “energy efficiency” as exemplified in GBP

Flat 35 S (ZEH) 	Flat 35 S (Energy efficiency) 
Flat 35 Renovation (Energy efficiency) 	Flat 35 Renovation (Durability/modifiability) 

2. Process for projection evaluation and selection

- One of the goals of the “Basic Housing Plan” (Cabinet decision on March 19, 2021) is to “improve housing circulation systems toward a decarbonized society by construction and the formation of high-quality housing stock.” JHF, as a policy implementation agency, responds to the policy issues by providing a variety of financial services
- The energy conservation standards for Flat 35, which is eligible for green bonds, are set pursuant to laws and regulations

3. Management of proceeds

- The full amount of proceeds are promptly applied to the purchase of Flat 35
- JHF annually confirm that the outstanding balance of green bonds is within the range of Flat 35 outstanding balances which are eligible for green bonds

4. Reporting

- JHF carries out reporting on the allocation status of green bonds and impact reporting on environmental improvement effects to the extent practicable

3. Green housing finance initiatives by Japan Housing Finance Agency

Impact reporting on green bonds

➤ Environmental Improvement Benefits (as of the end of FY2024)

7,147 tons/year

= Estimated CO2 reductions effect by Green Bonds issued in FY2024 (*)

(*) Number of loans in proportion to the amount of Green Bond issuance × CO2 emission reduction compared to "Current average energy efficiency performance of housing"

Reference: Energy efficiency performance standard and CO2 emissions by types of Flat 35

Classification	Standard	CO2 emissions (Single detached houses)	CO2 emissions (Condos)
Current average energy efficiency performance of housing	Thermal insulation Performance Grade 4 and Primary Energy Consumption Amount Grade 4	3,675 kg ("Case1")	2,862 kg ("Case2")
Flat 35 S ZEH*	"ZEH" standard defined by the "ZEH Roadmap Committee"	Reduction amount from Case1 is ▲2,731 kg	Reduction amount from Case2 is ▲2,130 kg
Flat 35 S (Interest Plan A) energy efficiency	Thermal insulation Performance Grade 5 and Primary Energy Consumption Amount Grade 6	Reduction amount from Case1 is ▲547 kg	Reduction amount from Case2 is ▲427 kg
Flat 35 S (Interest Plan A) durability and flexibility	Long-term Quality Housing Thermal insulation Performance Grade 5 and Primary Energy Consumption Amount Grade 6	Reduction amount from Case1 is ▲547 kg	Reduction amount from Case2 is ▲427 kg

* Zero Emission House refers to a residential building designed to achieve net-zero energy consumption annually by improving energy efficiency and incorporating renewable energy sources.



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