

in failures and mergers with larger institutions. Agricultural cooperatives, which account for 8 per cent of total loans, also face severe problems.

Non-bank institutions, active in real estate, leasing and consumer finance, have been the most negatively affected by the financial crisis. The most visible problems have occurred with the seven housing loan companies (HLCs), which account for 2 per cent of total loans by private credit institutions.¹¹ *On average, bad loans represent 74 per cent of their total lending.*¹² Although these institutions make up only a small portion of total loans within the financial system, they have borrowed extensively from the banks because regulations virtually denied them access to open financial markets and they do not take deposits.¹³ This has, in effect, increased the major banks' exposure to bad commercial real estate loans.

Bank Failures

In total, five JFIs have failed in the wake of the current crisis.¹⁴ Although all of the institutions that failed were local in business focus and none was a major bank, confidence in the system was shaken. In addition to these local problems, the New York branch of Daiwa Bank, which is one of Japan's 21 major banks, was implicated in illegal business activities.¹⁵ Corruption has been evident not only within the banks but also, allegedly, among government officials. In addition, even Japan's largest

¹¹The HLCs were formed by the major banks in the 1970s to meet a growing need for housing loans and to bypass regulations against bank lending in these areas. As the major banks entered the residential loans market themselves in 1980s, the HLCs increased their more risky business loans to real estate and construction companies.

¹²OECD, *OECD Economic Surveys: Japan*, November 1995, p. 50. Other estimates have put this ratio as high as 90 per cent.

¹³T. Masahiko and P. Turner, *The Liberalisation of Japan's Financial Markets: Some Major Themes*, BIS Working Papers No. 34 - November 1992, Bank for International Settlements, p. 61.

¹⁴Two Tokyo-area credit cooperatives failed in December 1994. Cosmo Credit Corporation and Kizu Credit Cooperative both failed in the summer of 1995. One regional bank, the Hyogo Bank Ltd., needed to be bailed out in 1995 as well. It was a Tier II regional bank that operated in the Kobe area and was adversely affected by the earthquake of January 1995.

¹⁵In September 1995, U.S. prosecutors accused an employee of falsifying records to conceal losses totalling more than US \$1.1 billion over an 11 year period. The bank was subsequently implicated in a cover-up. (For a description and analysis of Daiwa's illegal activities and the U.S. response, see *Financial Times*, November 6, 1995, p. 17.)