



Adverse effects caused by the revised Money Lending Business Law

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1. Introduction

Adverse effects by the Money Lending Business Law (herein “MLBL”) are gradually becoming obvious. Citing data released by the National Police Agency, the mass media reported on April 4, 2013 that the victims of *Yamikin* (illegal lenders) have been decreasing due to the effects of the MLBL. A series of those media reports feel strange to me. Details are described later, but the questionnaire survey we conducted in January 2013 showed that 9.8% of consumer loan users used *Yamikin* this past year, a figure well beyond the 3.3% of 2011¹. Such similar increasing trend had been confirmed by a survey released by the Japan Financial Services Association² last November.

In fact, the incidents of *Yamikin* victims have occurred frequently even after such media reports. For instance, in May 2013 alone, a city council member in Sodegaura city, who had been engaged in *Yamikin* lending was arrested³. There is no end to the incidents of fake pawnshops⁴ and card encashments⁵, which are becoming the modus operandi of *Yamikin*.

As has been discussed, expansion of *Yamikin* victims is just one of the adverse effects of the revised MLBL. Uchida and I conducted a "survey on the impacts of the revised MLBL"⁶ targeting general consumers in January 2013, following the survey conducted in July 2011, to find out the actual status of consumer loans. As a result of this survey, we confirmed the adverse effects of the MLBL including *Yamikin* damage. This article reports on several issues caused by the law revision.

¹ Number of Samples in 2013 survey: n=2140, Number of Samples in 2011 survey: n=2092. n= number of samples (unit: people). Hereinafter the same.

² Japan Financial Services Association "Results reporting on questionnaire survey for fund demanders and moneylenders." (11/16/2012).

³ *Wall Street Journal* Japan Version, "A city council member in Sodegaura, Chiba was arrested by Kanagawa Prefectural Police, etc. for having been engaged in *Yamikin* lending before elected as a city counsel.—." (5/15/2013).

⁴ *Nikkan Gendai* "Be aware of 'fake pawnshop!' " (5/8/2013).

⁵ *Yomiuri Shimbun* (Saitama) "Arrest of 6 encashment lenders who pretended to be jewelry dealers to avoid the police crackdown" (5/10/2013)

⁶ Survey Body: Hiroshi Domoto (Professor at Tokyo University of Information Sciences), Osamu Uchida (Associate Professor at Tokyo University of Information Sciences).

Survey Period: January 2013.

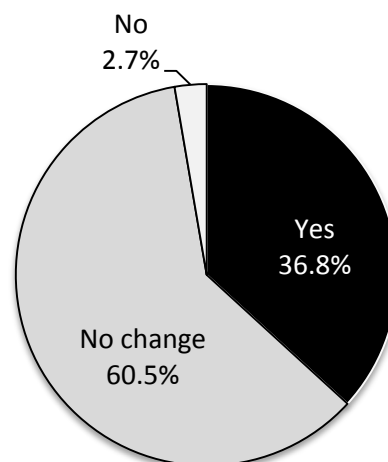
Survey Method: Online questionnaire survey

Survey Target: a set of sample consumer loan users and *Yamikin* users randomly selected from the general consumers aged 20 and over who are registered with research agencies

2. Restraints in Consumer Behavior (Negative Effects on Economic Growth)

First, I would like to report the impacts of the MLBL on consumption activities. We first asked consumer loan users if they found it harder to use consumer loans compared to the past. As shown in Figure 1, those who answered "It became harder to use consumer loans than before" accounted for 36.8%. "Consumer loans users" surveyed here are those who either applied for a consumer loan or borrowed from/repaid to consumer finance company after 2006 (hereinafter the same).

Figure 1 Do you feel it harder to use consumer loans compared to the past ?



Samples: "Those who have applied for consumer loan" (n=2140)

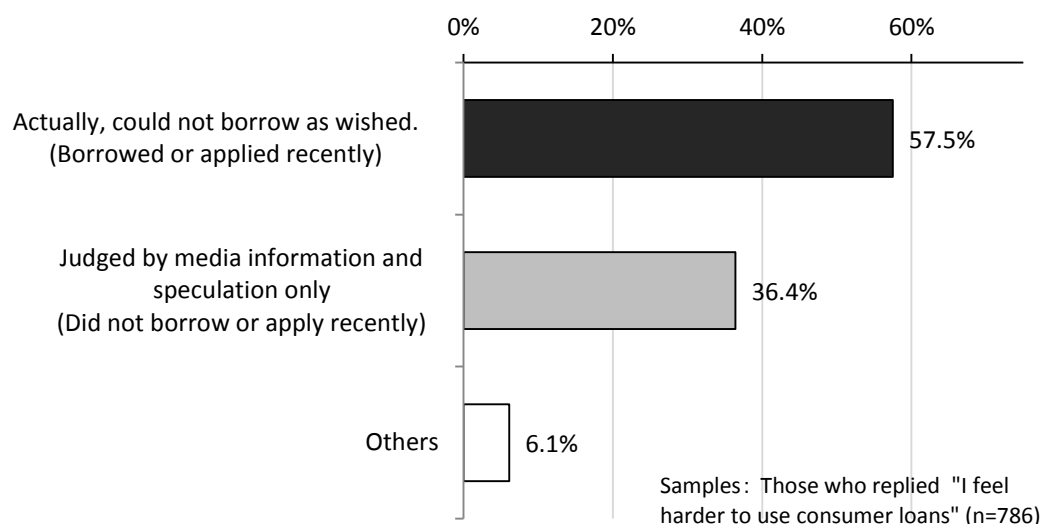
Source: "Survey on the impacts of the revised Money Lending Business Law" by Hiroshi Domoto and Osamu Uchida in January 2013

Next, we asked those who answered "It became harder to use consumer loans than before" about their consumer confidence and behavior. The answers such as "I came to choose more inexpensive goods and services," and "Now I try to spend less on hobbies, etc." accounted for about 80 %, which revealed the fact that many loan users are putting the brakes on spending as a result of the feeling that, "It became harder to use consumer loans."

Then, we asked those who felt "It became harder to use consumer loans", why they felt that way. While the ratio of those who answered, "I could not borrow the amount I desired" was 57.5%, the ratio of those who answered "I make a decision based on media information and speculation" without borrowing or applying for a loan was 36.4% (Figure 2). In other words, it is highly likely that due to the MLBL, not only those who were actually turned down, but that general consumers were also affected by the tone created by the media to "refrain from borrowing" and tried not to spend. According to Iida et al. (2010), it is assumed that such consumer behavior restraint

produced negative impacts on GDP of at least 6 trillion yen⁷.

Figure 2 Why do you feel it harder to use consumer loans?



Source: "Survey on the impacts of the revised Money Lending Business Law" by Hiroshi Domoto and Osamu Uchida in January 2013

3. Acceleration of Disparity Fixation

The MLBL caused a new disparity in the borrowing environment among customer segments. Since 2006 when the MLBL was revised, the loan cap rate has decreased from 29.2% to 15-20% per annum, which has caused a tightening of credit judgment and resulted in accelerating a credit squeeze among loan users with relatively low credibility, especially, self-employed workers⁸.

This time, to find out the difference in the borrowing environment by the corporate size of loan users' employers, we extracted "employees of micro-entities" and "public officers / employees of big companies" from consumer loan users and examined how they were treated when applying for a loan after June 2010 when the MLBL was fully implemented. Here, a "micro-entity" means a company with less than 10 employees and a "big company" means a company with more than 301 employees.

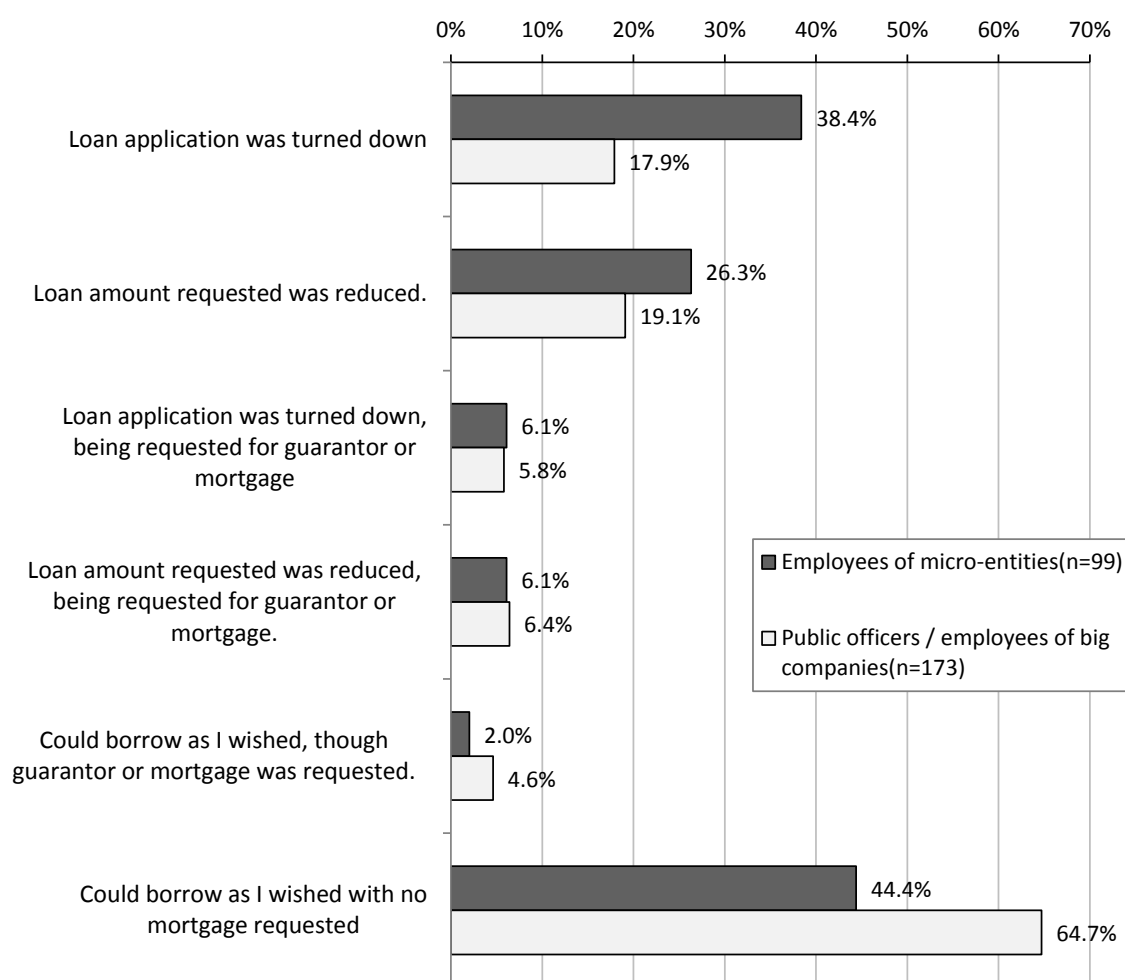
As a result, as shown by Figure 3, as to how they were treated when applying for a loan after the full implementation of the MLBL, while the ratio of "public officers / employees of big companies" who were "turned down" was 17.9%, the ratio of "employees of micro-entities" was 38.4%, a difference of 20.5 points. And while the ratio of "public officers / employees of big companies"

⁷ Takao Iida, Akira Kato, "6 trillion yen of nominal GDP had been already lost due to the cap rate regulation", *Kinyu Zaisei Jijyo* (issuance of June 2010).

⁸ Hiroshi Domoto (2009), "Survey of the Consumer Loan Market and Illegal Lending after the Revision of the Three Principal Statutes on Money Lending", *Institute for Research on Credit Business of Waseda University*, Working Paper (No. IRCFS09-003)
<http://www.waseda.jp/prj-ircfs/pdf/ircfs09-003.pdf>

who answered "Loan amount requested was reduced", was 19.1%, the ratio of "employees of micro-entities" was 26.3%. On the other hand, while the ratio of "public officers / employees of big companies" who "were able to get a non-secured loan with the desired amount" was 64.7%, the ratio of "employees of micro-entities" was 44.4%, a difference of 20.3 points. That is to say, we confirmed the phenomenon this time that the law revision widened the disparity between "public officers / employees of big companies" and "employees of micro-entities" in the environment for getting a non-secured loan.

Figure 3 How were you treated when applying for a loan after the full implementation of the Money Lending Business Law (June 2010)? ("employees of micro-entities" and "public officers/ employees of big companies" among the loan applicants after June 2010)

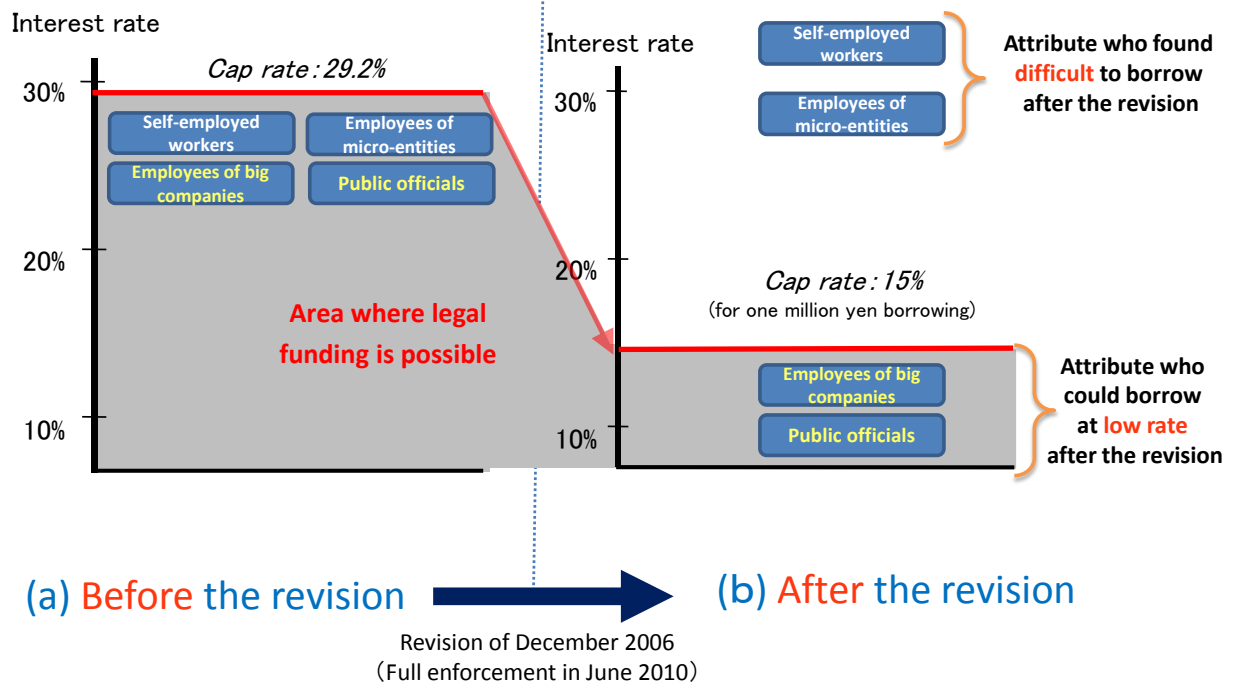


Source: "Survey on the impacts of the revised Money Lending Business Law" by Hiroshi Domoto and Osamu Uchida in January 2013

In addition, among the respondents who were asked for a guarantor or collateral, there was no significant difference between "employees of micro-entities" and "public officers / employees of big

companies". This time, we also conducted a survey of "employees of medium and small companies", the middle tier between big companies and micro-entities, and found their survey responses were at the midpoint between those of "public officers / employees of big companies" and those of "employees of micro-entities."

Figure 4 Money Lending Business Law that accelerated disparity fixation



Consequently, the scale of the market has markedly shrunk since the revision of the MLBL, but users' outstanding balances have not been contracted in a single uniform way. While for some users, the cashing limit has been maintained as before, the cashing limit for those users who fall under a specific attribute category has been reduced remarkably. The former are public officers and employees working for big companies, and the latter are employees of micro-entities and self-employed workers. Essentially, the development of consumer credit functions is supposed to redress disparity in consumption and living standards. However, as Figure 4 shows, due to excessive tightening of regulations, a specific group of users such as self-employed workers and employees of micro-entities have fallen into difficulties in borrowing and suffered damages from the law revision. On the other hand, public officers and employees of big companies have become able to borrow funds easily at lower interest rates than in the past, and thus have benefited from the law revision. In other words, the (revised) MLBL has worked unequally between the aforementioned two brackets. The (former) MLBL has caused a complicated phenomenon which made it difficult to

fully recognize the nature of the problem on the surface. That situation might have led the mass media to focus solely on the most visible issues, and therefore support the law's revision without a full understanding of the original problem.

4. *Kabarai* refund claimants who rely on *Yamikin*

When people who are having difficulties borrowing are in desperate need of funds, a method that those people use as a means to obtain funds is filing a claim for refund of overpaid interests (hereinafter referred to as *Kabarai*)⁹. As some attorneys and judicial scriveners had advertised aggressively since the revision of the MLBL, *Kabarai* refund claims have become widely known to general consumers. The commercialization of *Kabarai* refund claims in judicial circles can be cited as one of the reasons for this. According to a questionnaire survey¹⁰ that we have conducted to those who have claimed *Kabarai* refunds, despite the operations being standardized, the commission rate by attorneys/judicial scriveners is on average 48% of the refund amount, showing that the business is very profitable. With such advertisements encouraging *Kabarai*, refund claims have been increasing. In recent years there has been a growing trend of people who have run into difficulties borrowing choosing to file a *Kabarai* refund claim more easily. We therefore verified the debt behavior of those *Kabarai* refund claimants after the claims.

First, we analyzed the experiences of borrowings from *Yamikin* of “those who have claimed for *Kabarai* refund” in time-series order. (Figure 5). The ratio of those who had borrowed from *Yamikin* in the one-year period immediately preceding the 2011 survey was 8.7% in “*Kabarai* refund claimants before July 2010” and 3.5% in “*Kabarai* refund claimants after August 2010”. In this survey we followed the same group in order to identify the time series change in the use of *Yamikin*. The ratio of those who had borrowed from *Yamikin* in the one-year period immediately preceding the 2013 survey was 15.3% in the “*Kabarai* refund claimants before July 2010,” and 5.6% in the “*Kabarai* refund claimants after August 2010.” In other words, the number of debtors who have claimed for *Kabarai* refund has shown a tendency to gradually increase following their first-time

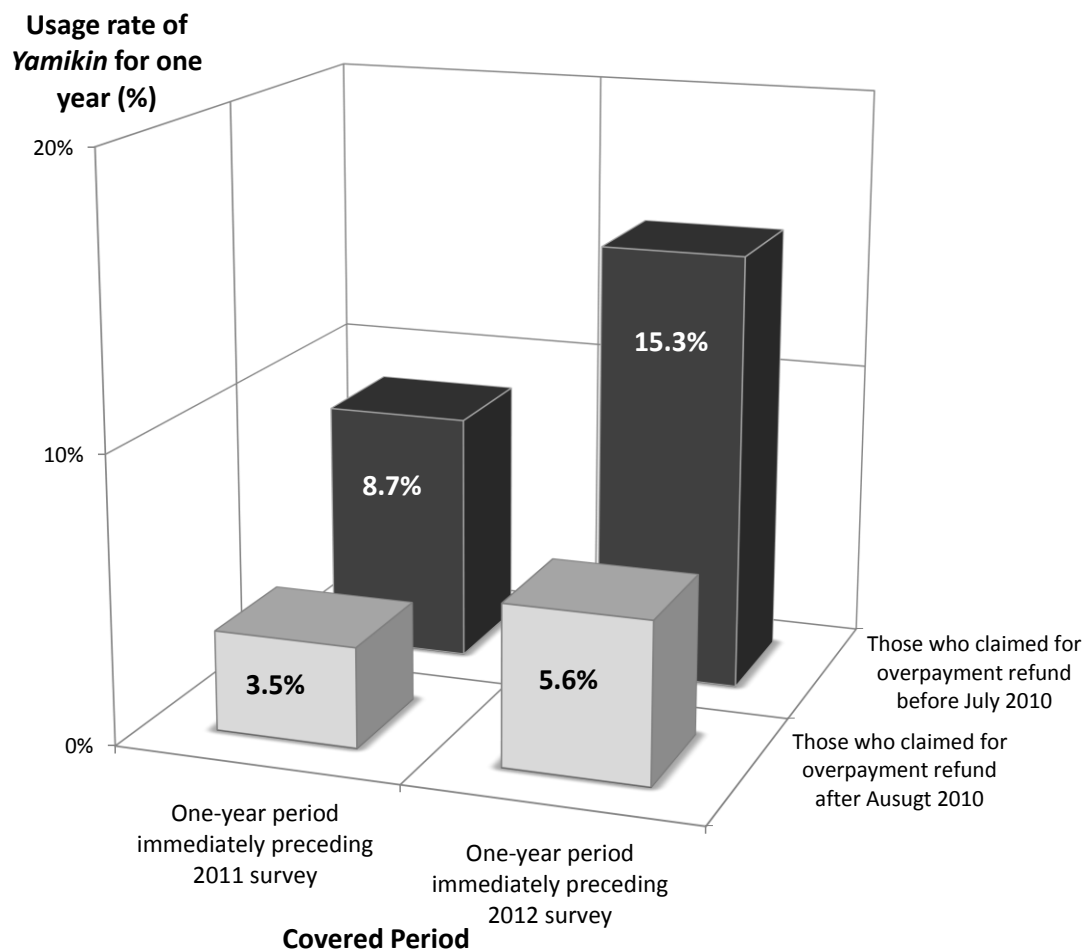
⁹ The category of interventions by lawyers and public agencies typically covers instances in which debtors are disinclined to file for personal bankruptcy and instead seek the assistance of an attorney-at-law (*bengoshi*) or judicial scrivener (*shiho-shoshi*, a legal expert in wills, divorces, and other areas) in seeking a reduction in, or exemption from, the loan principal or interest. Overpayment claims on the grounds that past interest payments were made at excessive rates in the gray-zone interest band have risen to particular prominence. Such legal moves seek redress from money-lending firms by demanding not just that the excess amount claimed is either deducted from the loan principal, but that the lender be made to pay additional compensation in cases in which the excess exceeds the principal that the entire debt is erased. They are collectively referred to as refunds of overpaid interest (*kabarai*).

¹⁰ We conducted a questionnaire survey in May 2008 to users who had claimed for *Kabarai* refund through their lawyers or judicial scriveners, and have actually received the refund and also have the statement of debt settlement (n=55).

Kabarai refund claims.

Furthermore, to check the degree of dependence on *Yamikin* of the *Kabarai* refund claimants, we carried out a comparative survey on the status of use of *Yamikin* in the one-year period immediately before the 2013 survey (Figure 6). In the same Figure, after classifying those who used *Yamikin* in 2012 into two groups; “those who have claimed for *Kabarai* refund “and “those who have not claimed for *Kabarai* refund”, we indicated the frequency of use of *Yamikin* in the one-year period (Figure 6 (a)) and the shift in the frequency of use of *Yamikin* (Figure 6 (b)) by comparison.

Figure 5 Time-series comparison of status of "borrowings from *Yamikin* in the most recent one-year period" by comparison of the implementation timing of *Kabarai* refund claims



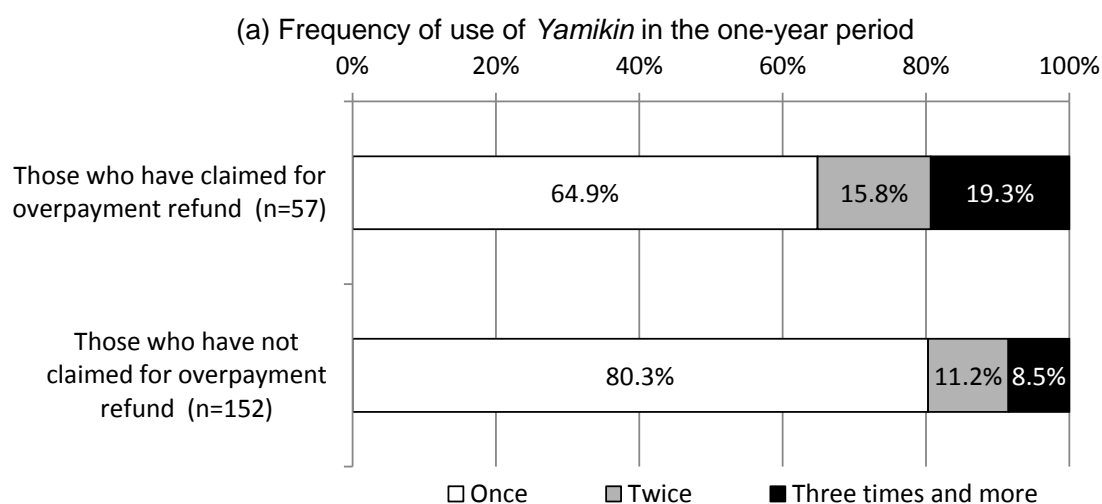
Samples: Those who claimed for overpayment refund before July 2010 (n=321).

Those who claimed for overpayment refund after August 2010 (n=144).

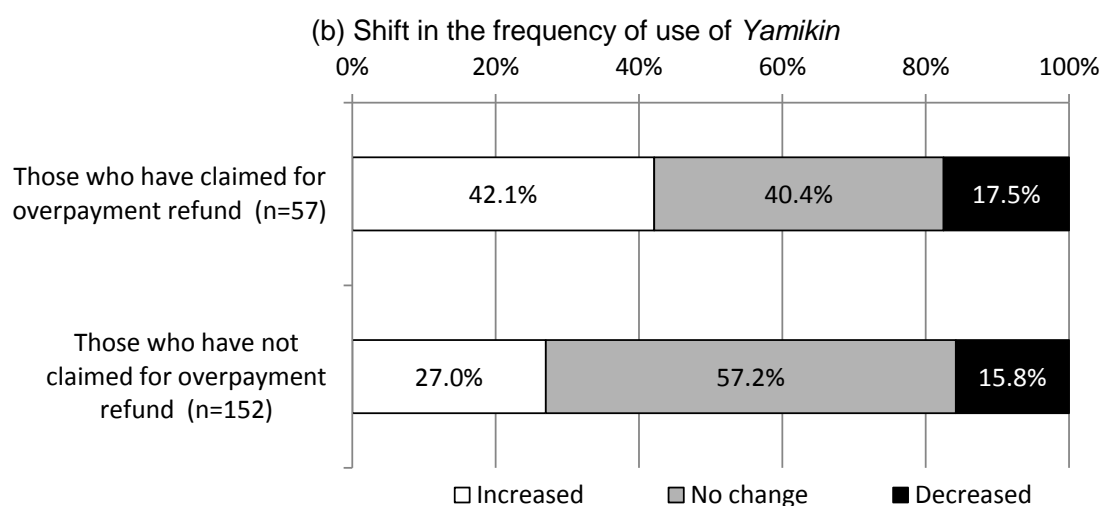
Source: "Survey on the impacts of the revised Money Lending Business Law" by Hiroshi Domoto and Osamu Uchida in January 2013

As Figure 6 (a) shows, in response to a question as to the frequency of use of *Yamikin* in 2012, 80.3% of “those who have not claimed for *Kabarai* refund” said “once”, 11.2% “twice” and 8.5% “three or more times”. On the other hand, 64.9% of “those who have filed for *Kabarai* refund” in the same year said “once”, 15.8% “twice” and 19.3% “three or more times”, which shows the reality that “those who have claimed for *Kabarai* refund” have a higher frequency of use of *Yamikin* compared to “those who have not claimed for *Kabarai* refund”.

Figure 6 Status of use of *Yamikin* in 2012 (by those with/without experience of *Kabarai* refund claim)



Samples: Those who used *Yamikin* in 2012



Samples: Those who used *Yamikin* in 2012

Source: "Survey on the impacts of the revised Money Lending Business Law" by Hiroshi Domoto and Osamu Uchida in January 2013

Subsequently, we looked into the shift in the frequency of use of *Yamikin* targeting the same Sample. According to Figure 6 (b), 42.1% of “those who have claimed for *Kabarai* refund” responded “increased”, far exceeding the 27.0% of “those who have not claimed for *Kabarai* refund”. On the other hand, 17.5% of “those who have claimed for *Kabarai* refund” answered “decreased”, which was at the same level as the 15.8% of “those who have not claimed for *Kabarai* refund”.

Based on the above results, we can observe that “those who have claimed for *Kabarai* refund” have a higher tendency to rely on *Yamikin* compared with those with no such experience, and also that the level of dependence is growing. According to our surveys, “those who have claimed for *Kabarai* refund” rely on borrowings from family members/acquaintances when they run out of refunded funds, and thus their debt behavior itself has essentially not improved. As previously mentioned, the usage ratio of *Yamikin* of those who have used consumer loans is on the increase, but this trend is expected to be mitigated if lawyers or judicial scriveners also provide financial counseling for debtors at the time of their visit to request for *Kabarai* refund claims.

5. Summary

To summarize the above results, the following points are raised as adverse effects caused by the revised MLBL: 1)Not only consumer finance users who were actually turned down for their loan applications, but also a wide range of consumers have refrained from consumption due to unfavorable reputations disseminated by the media and others; 2)With the cap interest rate being lowered, while employees of micro-entities and self-employed workers whose creditworthiness is relatively weak have run into difficulties borrowing, public officers and employees of big companies have become able to borrow at lower interest rates than in the past, and thus the disparity in standards of living between the two groups has widened; and 3)“Those who have claimed for *Kabarai* refund” are more heavily dependent on *Yamikin* as compared to those with no such experience, and the dependency trend is growing.

From the 1990’s following the collapse of the bubble economy, the Japanese economy has been faced with a deep deflation where people’s incomes have decreased. There has been an increasing number of people trying to go through the demand of funds by using consumer finance to maintain their standards of living. As a result, in the same period, the scale of the consumer finance market had expanded consistently. However, under the circumstances where no one can identify clues to get out of the deflation, consumers with debt have felt more heavily the burden of repayments. The revised MLBL can be considered a social policy that forcibly reduces or exempts consumers’ ballooned debts that had occurred under the deflationary economy, and also to relieve the dissatisfaction of the people who have fallen into difficulties in making a living.

However, as history and economic textbooks have illustrated, this sort of “dirigiste” policy produces only a temporary effect. On the other hand, it causes distortions in various social events over a long period of time, and so has an adverse impact on the economy. If the current administration of the Liberal Democratic Party and New Komeito seek economic growth to pull out of the serious deflationary economy, they should undertake a review of the MLBL immediately. This is an urgently needed measure from the standpoint of the protection of consumers seeking financing as well.