

Financing Affordable Homeownership in Thailand: Roles of the Government Housing Bank Since the Economic Crisis (1997–2002)

by Ballobh Kritayanavaj

A BRIEF INTRODUCTION TO GOVERNMENT HOUSING BANK

The Government Housing Bank (GHB) was established in 1953 under the Government Housing Bank Act of 1953 as a wholly-owned special purpose financial institution of the Ministry of Finance with an initial capital of 30 million baht (about US\$800,000). As of year-end 2001, total capital investment was 15,000 million baht and total assets were 307,000 million baht.

Initially, GHB's objectives were to mobilize funds for on-lending as well as to engage in land-subdivision and the construction of

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houses for sale to the general public. There were no housing developers then and GHB became the first in Thailand. It acquired land and developed several sub-division projects in Bangkok. Other than financing its own projects and providing end-financing to its buyers, there was limited demand for its loans. The GHB quietly existed for the first two decades of its operation; its only achievements were a few land and housing development projects.

In 1972, in response to the changing housing situation, which was deemed to be worsening, the National Housing Authority (NHA) was established by the government to embark on large-scale public housing construction programs. The GHB Act was amended with housing development activities transferred to NHA, with GHB functioning as the specialized housing finance institution of the country at a time when other financial institutions showed little interest in housing finance.

The oil-shock induced recession from the mid-1970s onward created a deep eco-

nomical recession in the country and GHB found itself over-burdened with non-performing construction loans and facing a severe liquidity crisis. In 1981 the Ministry of Finance intervened by appointing a new board of directors and chief executive officer. By the mid-1980s, GHB was successfully turned around. Problem construction loans were restrained, and sound banking practices and procedures, a personnel development program, modern technologies, a five-year operating plan, and a well-defined funding diversification program were all implemented. Since then, GHB has placed more emphasis on mortgage loans to individual home buyers, rather than construction loans to developers.

GHB operates completely on a commercial basis in the financial sector as one of the banks in the system. All banks and financial institutions compete against each other in the free financial market. In Thailand, both funding and lending are determined through market forces, i.e., mortgage interest rates reflect market rates. Thus, housing finance is an integral part of

the financial system with no constraints on resource allocation.

Branch expansion is an important approach used by banks to expand their points of sale nationwide and to compete for market share. In 1990, GHB had only ten branches. The number of GHB branches increased rapidly during the housing boom of the late 1980s and the mid-1990s (1987-1996). The Bank has been able to provide mortgage lending services throughout the country since 1994 with a total of 100 branches. As of June 2002, GHB has 30 main branches in the Bangkok metropolitan region, 40 main branches, and 43 sub-branches in the provincial regions.

Since the economic-financial crisis in 1997, GHB has played a leading and crucial role in mortgage financing. It continued to provide home loans, even when most commercial banks tightened their lending activities during 1997-1998 due to the liquidity crunch. In response to the government's policy, GHB has also introduced various innovative housing finance programs to promote housing demand and help revitalize the real estate sector, as well as stimulate economic growth since the economic crisis.

At the end of March 2002, GHB had outstanding home loans totaling about 280,000 million baht, a market share of about 40%, and was servicing more than 700,000 borrowers¹. It is also able to maintain the lowest mortgage rate in the market, particularly for low- and moderate-income groups. Thus, GHB has made borrowing more accessible and made housing more affordable to a large number of people in Thailand.

With a current total staff of about 2,000, the GHB remains the leader in the housing finance market and is the most staff-efficient bank with the highest loan-asset-per-employee ratio.

HOUSING AND HOUSING FINANCE SITUATION AFTER THE ECONOMIC CRISIS IN 1997

The Economic-Financial Crisis in 1997

The Thai economy during the years 1987-1995 grew continuously at extraordinary rates between 8.5% and 13.3% per year. The Stock Exchange of Thailand (SET) index also increased dramatically, from only about 400 points in 1988 to its record-high of about 1,700 points in 1993. However, during 1995 and 1996, signs of economic trouble in Thailand began to surface. The trade balance plunged significantly, reaching the lowest point at a US\$16 billion deficit.

The current account deficit has widened to as much as 8% of gross domestic product. Short-term foreign debts in the private sector rose sharply while the foreign capital started to flow out of the country. The housing and real estate industry, one of the major engines for past growth, was driven by speculation and in a state of excessive oversupply. The stock market was also subject to

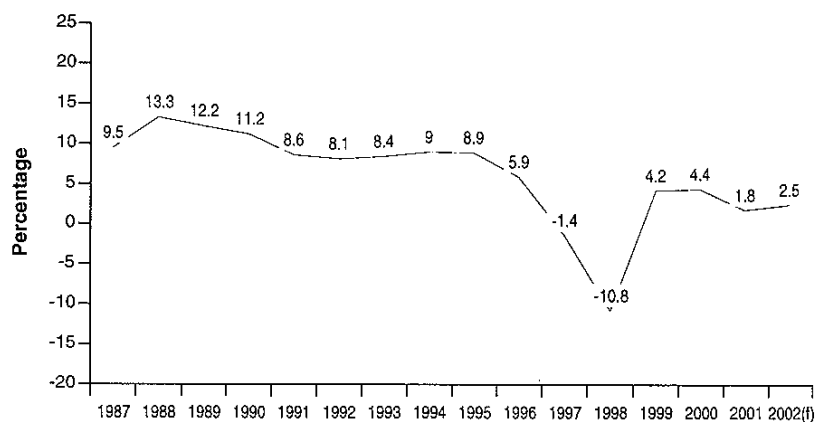
speculative forces. The bubble economy and the weakness of the financial sector undermined foreign investors' confidence. Meanwhile, the baht-to-dollar exchange rate in the market became very volatile as foreign investors lost confidence in Thai currency.

As a result, on July 2, 1997, after speculative attacks on the currency, the Thai government was forced to abandon its pegged currency exchange rate system and allowed the Thai baht to float. The baht was depreciated continuously from 25 baht per dollar prior to the floatation to 57 baht per dollar in early 1998.

Forced by depleted foreign reserves, the government sought financial assistance from the International Monetary Fund for a rescue package worth US\$17.2 billion. GDP dropped from a positive 5.9% in 1996 to a negative growth rate of -1.4% in 1997, falling further to a negative -10.8% in 1998. (See Figure 1.)

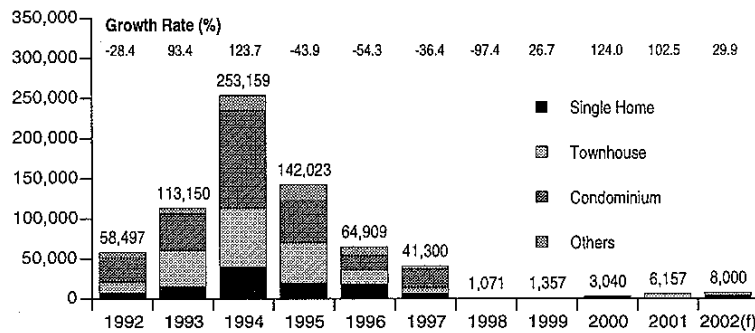
The burst bubble in 1997 had a severe effect on the financial sector. Fifty-six finance

Figure 1. Thailand's GDP Growth Rates



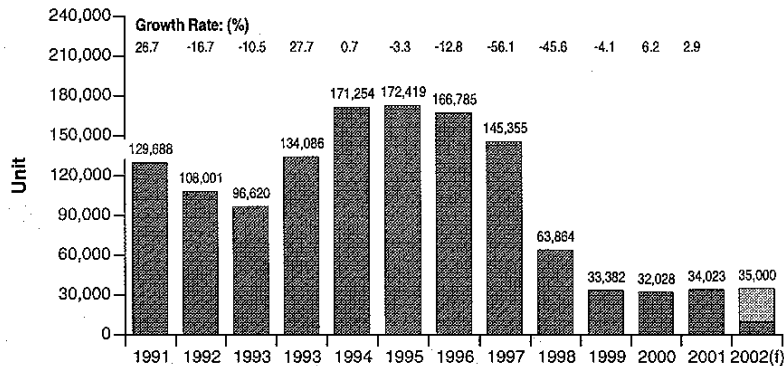
Source: Bank of Thailand

Figure 2. Newly Launched Housing Units in Bangkok Metropolitan Region



Source: 1991-1999 by GHB and 910 Management Co. Ltd.; 1994-1998 by National Housing Authority

Figure 3. Housing Completion Units in Bangkok Metropolitan Region



Note: 1991-1992 = Bangkok and three adjacent provinces; 1993-present = Bangkok and five adjacent provinces

Source: GHB/Housing Information and Research Dept.

companies became insolvent and were later suspended by the Bank of Thailand. Runs on the remaining finance companies and some small and weak commercial banks occurred. The domino effect spread

widely and caused a number of financial institutions to fail during 1997-1998. The financial crisis resulted in the credit crunch and very high interest rates in the system in 1998.

Housing Market Situation After the Crisis

Since the economic meltdown in 1997, the real estate and housing market in Thailand has been in a severe slump. Most housing developers, both listed companies in the SET and non-listed firms were vulnerable. Not only did developers suffer, but they also pulled down mortgage lenders as well as related sectors, such as construction contractors and building material suppliers.

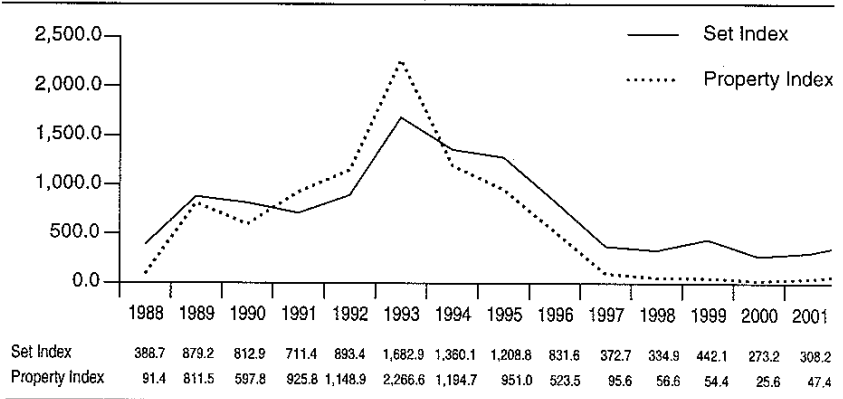
Real estate transactions fell dramatically because of weak demand and huge oversupply in the market. With less cash flow coming from sales, many developers faced serious liquidity problems and were unable to repay mortgage debt to the lenders, weakening the banking system. Thus, very few housing projects were launched in the market in Bangkok or other areas. In the Bangkok metropolitan region, only 41,300 new units were opened for sale in 1997; and the number fell to only about some thousand units annually during 1998-2001, compared to the peak of 253,000 units in 1994. (See Figure 2.) This resulted in the drastic decline of housing completions from the peak of 172,419 units in 1995 to only 63,864 units in 1998 and around 30,000 units annually from 1999 until 2002. (See Figure 3.)

Even though newly launched housing units and new housing completions dropped rapidly after the crisis, there was still a large excess housing supply. In 1998, in the Bangkok metropolitan region alone, there were about 264,000 unsold units in the hands of developers and another 267,000 unoccupied units in the hands of the buyers/investors, ready to be released for sale in the market. The oversupply of units held by developers, particularly completed single houses and townhouses was gradually absorbed during 1999-2001. However, there are still an enormous number of unsold condominium units.

The economic and financial crises resulted in a dramatic decline of housing price, which hit bottom in 1999. It is estimated that the prices of single houses and townhouses dropped about 20%-35% from their peak in 1996-1997, whereas those of condominiums dropped about 30%-50%. Housing prices remained low in 2000-2001 but tended to increase somewhat in 2002, particularly single detached houses.

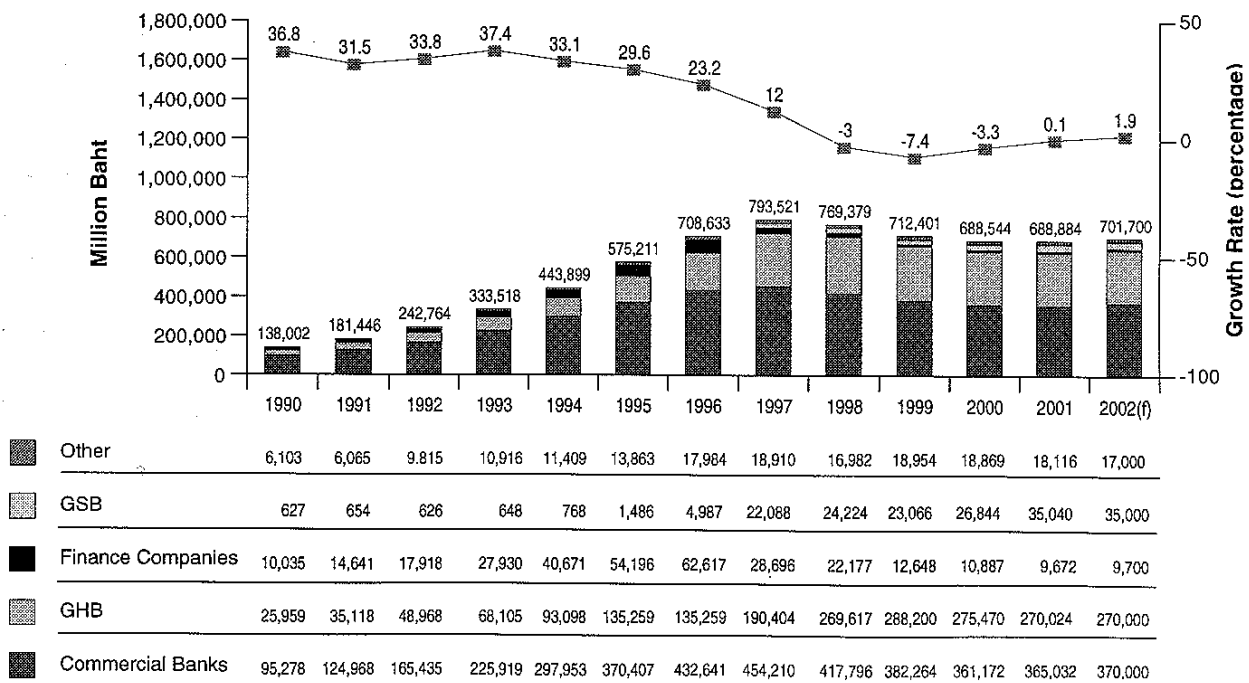
During the crisis, the housing and real estate sector faced huge losses due to the contraction in sales and higher construction costs. The financial crisis caused a drastically rising level of non-performing loans (NPLs) and forced financial institutions to foreclose the

Figure 4. Thailand's Set Index vs. Property Index



Source: The Stock Exchange of Thailand

Figure 5. Home Mortgage Loans Outstanding in Thailand



Note: Others are comprised of National Housing Authority, Credit Foncier, and Life Insurance Company.

Source: Bank of Thailand/Government Housing Bank

mortgaged properties and sell them at steep discounts. This aggravated the supply situation. Nearly all developers were vulnerable to distress selling, negative cash flows and huge losses. As a result, the SET index for property sector in the stock market plummeted from its peak of about 2,300 prior to the crisis to 96 at the end of 1997 and remained lower than 100 until 2002. (See Figure 4 page 16.)

**Housing Finance Situation
Home Loans Outstanding**

Home mortgage lending of all financial institutions in Thailand expanded dramatically during the ten-year housing boom period of 1987-1997. In 1987, the total home mortgage loan outstanding was only 50,657 million baht. It grew consecutively and reached its peak at 793,521 million baht at the year ended 1997, accounting for 32% annual compound growth rate.

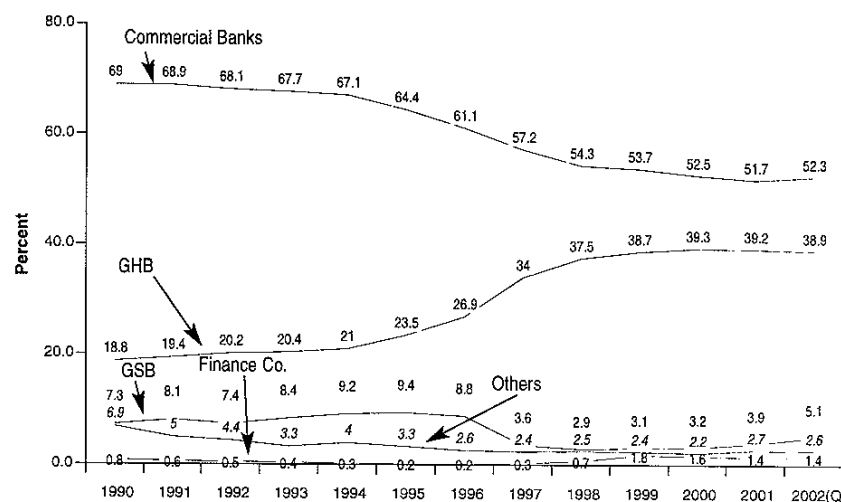
Outstanding loans declined somewhat in 1998 and further decreased consecutively to a bottom in 2000 of 688,544 million baht due to the high rate of prepayment and closed accounts, weak demand due to a wide spread between borrowing and deposit interest rates, and an increased number of foreclosed properties. It has picked up slightly since 2001. (See Figure 5.)

GHB has been the leading housing finance institution in Thailand in terms of market share. Its market share of the total home loans outstanding has expanded rapidly from only 16.7% in 1989 to 34% in 1997, and reached its peak in the year 2000 with 39.3%, the highest of any single financial institution. Presently, GHB holds about 38.9% of the market. (See Figure 6.)

New Home Loan Origination

Annual new home loan origination of all financial institutions in Thailand expanded very rapidly during the boom period. In 1988, it

Figure 6. Market Share of Home Mortgage Loans Outstanding



Note: Others are comprised of National Housing Authority, Credit Foncier, and Life Insurance Company.

Source: GHB/Housing Information and Research Dept.

was only 40,110 million baht, but reached more than 200,000 million baht per year during 1994-1997. In 1998 after the crisis, it dropped significantly to about 100,000 million baht and fell further to its bottom in 1999 to about 64,000 million baht. It rebounded to around 100,000 million baht per year during 2000-2001. (See Figure 7 page 18.)

It is noticeable that the market share of new home loans of the Government Housing Bank in the crisis year of 1997 reached a record-high of 51.1%, compared to 31.8% in 1996. In 2001, GHB's market share was 32.8%. It increased significantly to 39% at the end of the first quarter of 2002, due to the innovative lending program of the Bank. (See Figure 8 page 18.)

Since early 1999, the overall economy has stabilized and the financial sector has been reformed and become more stable. Many financial institutions have successfully been

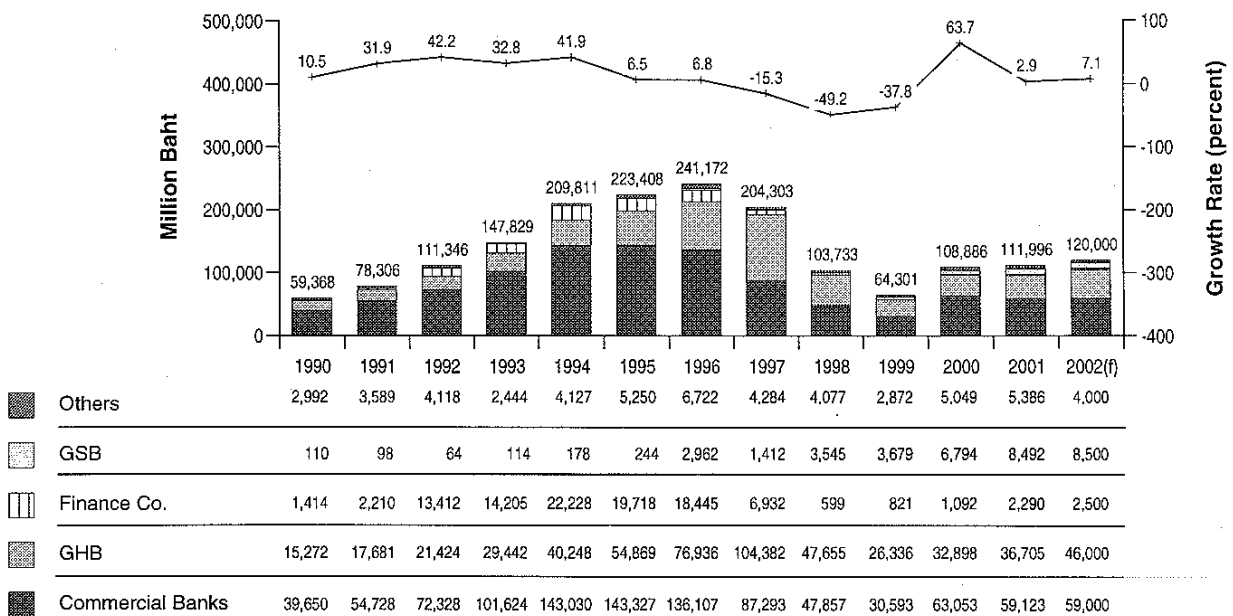
recapitalized. The severe liquidity shortage has eased. As a result, the financial condition of many institutions have reversed from extremely tight liquidity to huge excess liquidity, causing continual drops in deposit rates to only 1.5%-2.0% in 2002, the lowest rates in more than three decades. Most banks have attempted to provide more loans to various sectors in order to relieve their huge excess liquidity.

Since 1999, home loans have been considered to be less risky than any other loans because it is perceived that it is real demand rather than speculation that drives the purchase of housing. Thus, several banks have competed aggressively in extending home loans, including refinancing by offering very low mortgage rates, even lower than the banks' minimum lending rate (MLR).

In early 2002, banks offered mortgage loans at only 6.25% to 7.0% floating rate, whereas

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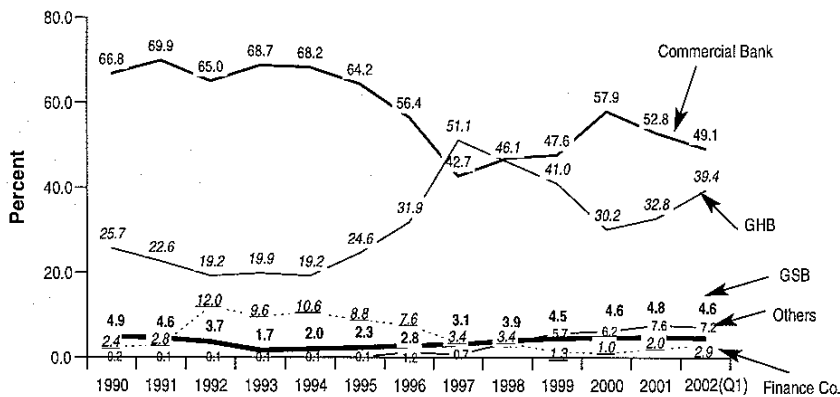
Figure 7. New Home Loan Origination in Thailand



Note: Others are comprised of National Housing Authority, Credit Foncier, and Life Insurance Company.

Source: Bank of Thailand/Government Housing Bank

Figure 8. Market Share of New Mortgage Loans Origination



Note: Others are comprised of National Housing Authority, Credit Foncier, and Life Insurance Company.

Source: Bank of Thailand/Government Housing Bank

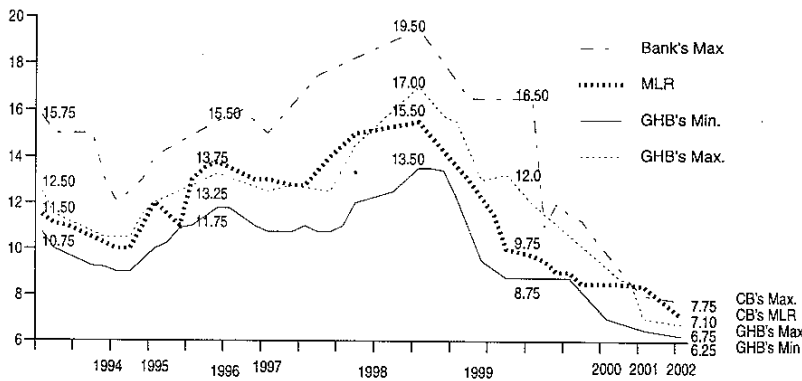
the MLR is 7.10% to 7.75%. (See Figure 9.) The three-year fixed rates are 4.5% to 5.5%, even lower than the floating rates.

It is also noticeable that the economic and financial crisis in 1997 resulted in the dramatic increase of non-performing home loans of all mortgage lenders. In 1998, the high ratio of NPLs reached its peak of more than 30%, and since then has declined slowly to about 23% at the end of 2001.

ROLE OF GHB IN PROMOTING AFFORDABLE HOMEOWNERSHIP SINCE THE CRISIS

The Government Housing Bank has played a leading and crucial role in the development of private sector housing in Thailand since the economic crisis in 1997. It has

Figure 9. GHB vs. Commercial Banks' Floating Rates



Notes: 1. CB's Max. = Commercial bank's maximum floating rate.
 2. CB's MLR = Average minimum loan rate of 5 large commercial banks.
 3. GHB's Max. = GHB's floating rate for loan amount 200,001-3,000,000 baht.
 4. GHB's Min. = GHB's floating rate for loan amount less than 200,000 baht.

Source: BOT/GHB

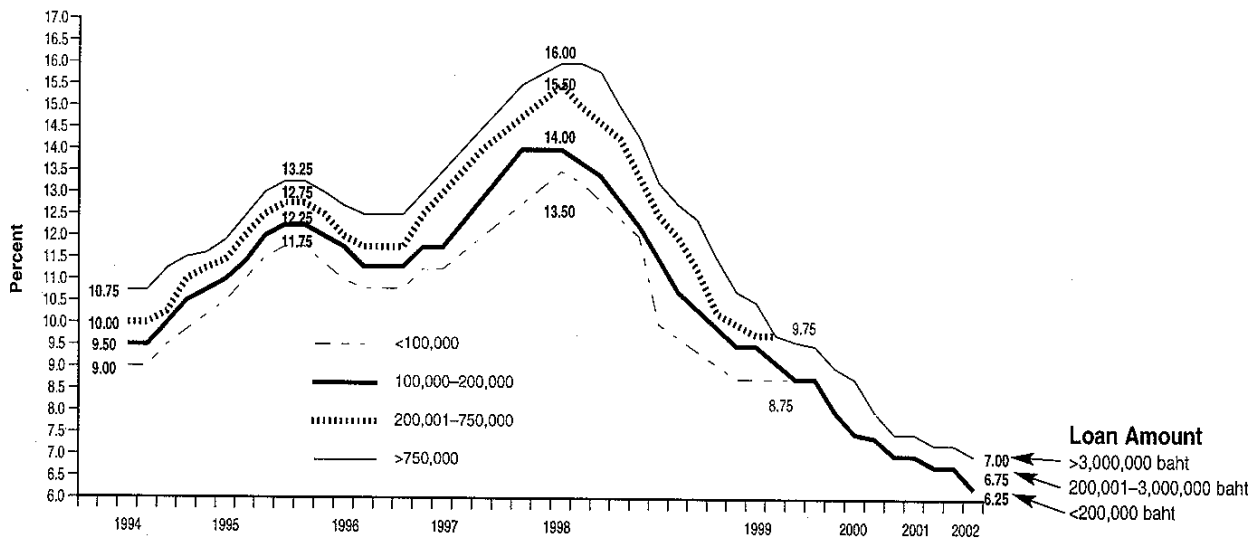
mobilized household savings and other funds to continuously expand its mortgage lending to homebuyers throughout the country. The important roles of GHB in promoting affordable homeownership can be summarized as follows:

- GHB offers the lowest mortgage interest rates in Thailand.

GHB competes with commercial banks and other financial institutions in the mortgage market. Because the GHB operates efficiently, it is able to provide the lowest lending rates. GHB's mortgage interest rates are usually lower than the minimum lending rates of the commercial banks both before and after the crisis. (See Figure 9.) Thus, GHB has made borrowing more accessible and more affordable to a large number of homebuyers.

- GHB concentrates on lower-income groups and offers the lower rates for small mortgage loans.

Figure 10. GHB's Floating Rate by Loan Amount



Source: GHB/Housing Information and Research Dept.

The Bank charges different interest rates for its mortgages according to the different loan amounts. The smaller loan amounts are charged lower interest rates. The larger loans cross-subsidize the smaller loans. (See Figure 10.) This helps to make houses more affordable to lower-income groups. Thus, home loans offered by the Bank have been concentrated in lower-income groups (the loan amount of less than 1 million baht as defined by the Bank of Thailand), which constitutes about 90% of its total borrowers. (See Figure 11.)

- **GHB is the leader in extending loan terms up to 30 years and LTV up to 100%.**

Before the crisis, most financial institutions offered home loans with a repayment period up to 20 years, whereas GHB offered up to 25 years. After the crisis, GHB was the leader in extending loan terms up to 30 years. In addition, the Bank increased the loan-to-value ratio up to 90%-100% of the appraised value or housing price for some loan programs. This helps reduce monthly installment payments, increasing housing affordability and demand to the low- to middle-income groups of the population.

- **GHB is now serving more than 700,000 borrowers, both in Bangkok and other provinces throughout the country.**

Since its inception, GHB has assisted more than 1.5 million families to have their own homes. The Bank is now serving more than 700,000 borrowers nationwide through more than 100 branches; GHB has been able to provide home loans nationwide since 1994, in accordance with the government's policy to expand credit to provincial areas. Recently, GHB's home loans distributed broadly to all areas of the kingdom. The ratio of home loans provided for borrowers in the Bangkok metropolitan region and in the provincial regions is about 50:50. (See Figure 12.)

- **GHB has provided home loans continuously, even in the crisis years of 1997-1998.**

GHB is the only bank that is able to provide home loans continuously in all circumstances, even in the economic crisis years. In 1997-1998, most financial institutions stopped or reduced their mortgage lending activities due to the liquidity crunch. As a result, mortgage rates rose dramatically, up to

18%-19%. Under those circumstances, a large number of homebuyers could not obtain home loans from mortgage lenders. However, GHB continued to provide home loans with the lowest lending rates in the market.

GHB's loanable funds have been mobilized mainly through deposits and bond issuance. (See Figure 13.) However, funds raised during this credit crunch period bore very high interest rates. For instance, the Bank issued two-year bonds worth 5,000 million baht at the coupon rate of 15.5% in 1998. GHB's ability to access the market has made borrowing more accessible and more affordable to a large number of homebuyers, helping relieve the credit crunch and real estate crisis.

GHB's Special Housing Finance Programs for the Relief of Real Estate Crisis and Stimulation of Economic Growth

The government of Thailand recognizes that housing development is one of the key drivers to economic growth. It also places high importance of housing finance as an essential element to housing development. Thus, it provides policy support to GHB and utilizes GHB as a key housing policy instrument to foster an enabling environment for the housing industry.

Since the crisis years, the government has introduced various instruments, particularly through taxation and housing finance measures, to relieve the real estate crisis as well as to stimulate economic growth. GHB has been utilized to boost housing demand through various home loan schemes as follows:

- **Subsidized Home Loan Scheme Under Real Estate Rehabilitation Program**

Figure 11. Number of Borrowers by Loan Amount

Loan Amount	Percentage of Borrowers				
	1997	1998	1999	2000	2001
Low-Income Group	88.09	87.54	90.51	90.76	90.81
- 10,000-200,000 Baht	12.58	13.01	15.00	14.62	13.12
- 200,001-1,000,000 Baht	75.51	74.53	75.51	76.14	77.69
Middle- and High-Income Group	11.91	12.46	9.49	9.24	9.19
- 1,000,001-3,000,000 Baht	10.34	11.15	8.86	8.53	8.82
> 3,000,001 Baht	1.57	1.31	0.63	0.71	0.37

Source : GHB/ Housing Information and Research Dept.

Figure 12. Number of Borrowers by Region

Region	Percentage of Borrowers				
	1997	1998	1999	2000	2001
Bangkok Metropolitan Region	48.6	52.6	52.7	50.2	49.5
Provincial Regions	51.4	47.4	47.3	49.8	50.4

Source : GHB / Housing Information and Research Dept.

Figure 13 GHB Sources of Fund

Items	1997	1998	1999	2000	2001
1. Deposits & Promissory Notes	61%	66%	62%	69%	75%
2. Domestic Borrowings	5%	5%	2%	2%	2%
3. Offshore Borrowings	10%	7%	7%	6%	3%
4. Bond Issuance	24%	22%	28%	23%	20%

Source : GHB/ Housing Information and Research Dept.

In the crisis year of 1997, the property market was severely depressed. In response, the government introduced the "Home Loan Scheme Under Real Estate Rehabilitation Program."

Under the program, GHB, with funding from Bank of Thailand, was directed to provide subsidized home loans worth 10,000 million baht with a 9% fixed interest rate (compared to the prevailing rate of about 12%) for the repayment period of up to 30 years. Allocated funds were used up within three days. The program enabled GHB to extend loans to 12,456 borrowers, while the housing market was depressed and loans extended by other financial institutions were minimal. This allowed the market share of new home loans of the Bank in 1997 to reach the record high of 51.1%, compared to 31.8% in the previous year.

• **Welfare Home Loan Scheme for Government Officials**

This scheme offered mortgage loans to government officials at a lower interest rate than that of ordinary customers. The loanable funds, allocated by the government during 1991-1997, totaled 7,600 million baht. The Bank contributed additional funds about three times the government's budget to lend to the government officials in need. Since 1998, the Bank has received no additional budget, but the project has been further implemented using the remaining budget and principal recovered from borrowers' repayments, together with a contribution made by the Bank. From 1991 to the end of 2001, the Bank had extended 25,989 million baht, helping 68,488 government officials to become homeowners.

• **Rollover Mortgage Loan Program**

In 1999, GHB introduced a new housing finance package to boost housing demand. The package has relied mainly on bond finance, instead of short-term deposits so that it will help to prevent a mismatch in maturity between long-term mortgages and short-term deposits. The rollover mortgage system was adopted, under which the borrowers can borrow up to 30 years. However, they can select a revolving period of time of three or five years, during which the mortgage interest rate is fixed at 250 basis points over the cost of the GHB bond, secured by the Ministry of Finance. On the rollover date, the borrowers can select another period, again from either three or five years of fixed rate, or else they can switch to the ordinary floating rate.

From the start of this program in 1999 to the year ended 2001, GHB was able to extend rollover mortgage loans to 48,414 borrowers worth 25,486 million baht.

• **GHB-GPF Graduated-Payment Mortgage Loan Program for Government Officials, who are GPF Members**

By the end of 2001, GHB, in cooperation with the Government Pension Fund (GPF), launched an innovative mortgage program with lower interest rates especially for the Thai government officials who are the GPF members. It aimed to support the government's policy of promoting homeownership, revitalizing the real estate sector and stimulating the country's overall economy.

Under the program, the GPF members are entitled to borrow up to 30 years, at 4.5% fixed interest rate for the first three years, after which the rate will be deposit-based, cost plus equal to Krung Thai Bank's 36-month deposit rate plus 75 basis points.

In addition to offering the lowest interest rates in the market, GHB has also relaxed its ordinary lending terms and conditions in order to promote housing demand and borrowing capability. The maximum loan amount can be up to 100% of the house price or appraised value (no-downpayment loan). They can borrow up to 65 times their net monthly income, as opposed to 30-35 times normally allowed for the public. The maximum monthly installment had been changed to not more than 50% of the gross monthly salary, compared with the ordinary limit of not more than 30% of the net monthly salary. If the credit line approved by the bank is inadequate, a GPF member can apply for an additional loan equal to the difference against his or her pension fund (accumulated contributions plus the state's contributions as well as other benefits deposited with the GPF). The Bank protects itself against default risk by deducting the monthly installment payment at the source.

In addition, the monthly installment payment is designed for payment in low amount in the first year. Thereafter, it will be increased by about 100 - 200 baht each year. This graduated payment mortgage program with the lower initial payments will help increase affordability to the government officials whose current incomes could not support the conventional mortgage loans.

On November 27, 2001, the first day of the launch of this program, more than 14,000 GPF members across the country rushed to reserve their right, exhausting the initial allocated 5,000 million baht fund in less than two hours. The right reservation had to be extended up to December 2001. It has attracted about 84,000 officials nationwide for home loan reservations worth 62,000 million baht, more than 12 times the original allotted loanable fund.

As of June 2002, GHB received about 58,000 loan applications for a total loan

amount of over 42,000 million baht. Out of these, some 39,000 applicants for loans worth about 25,000 million baht were approved, an average of about 600,000 baht per loan.

It is noticeable that this program is very successful, in the view that it has helped boost consumers' mood and sentiment for homeownership, absorbing the current oversupply of housing units and thus helping revive the housing market in general. This is clearly evident by the increase in home selling for all income groups by most developers in the first half of 2002.

The overwhelming success of channeling the excess liquidity currently in the financial market into the housing sector, and thus promoting more affordable homeownership to the lower-income groups of civil servants, has encouraged the Bank to introduce another similar program especially for state enterprise employees, who are the members of provident funds (PF). This new program called "GHB-PF Graduated-Payment Mortgage Loan Program for State Enterprise Employees" was launched in May 2002. Its operating results need to be closely monitored and evaluated.

THE CHALLENGES AHEAD

Since 1999, the Thai economy has been stabilized and has started to recover. The financial sector has been reformed and become more stable. Many financial institutions have successfully been recapitalized and internationalized. The high ratio of non-performing loans has declined and a large number of NPLs have been removed from bank books. As a result, the financial market has reversed from massive tight liquidity to huge excess liquidity, causing a sharp drop in deposit rates to 1.75%-2.00% (as of July 2002), the lowest rates in more than three decades. Most banks have attempted to provide more home loans in order to relieve

their huge excess liquidity, since home loans have been considered to be less risky than any other loans.

Apart from the changes in the financial and the housing finance market, GHB has to operate in the new regulatory environment. Prior to 1998, GHB was under the direct supervision of the Ministry of Finance, whereas all private financial institutions were under the supervision of the Bank of Thailand. After the financial crisis, all state special purpose financial institutions, including GHB, have to perform their operations in accordance with the BOT's standardized financial guidelines and auditing system, including the accounting and risk management practices.

Under this changing environment, the Government Housing Bank, in order to maintain its leadership in housing finance and to sustain profitable operation, is facing many challenges now and ahead such as:

- **Fierce Competition in Home Mortgage Lending**

Most financial institutions have shifted their focus from lending to large corporations to retail lending and to consumers. Several commercial banks as well as the Government Savings Bank are competing aggressively in extending home loans including refinancing by offering very low mortgage rates for both fixed- and floating-rate loans. This will affect the market share of new loan origination, increase refinancing, and will reduce the spread and profitability of the Bank. Thus, the Bank needs further development of new marketing strategies to expand new home loans as well as to retain the existing borrowers.

- **NPL Resolutions**

The NPLs of the Bank reduced remarkably from a peak of 28% in 1999 to about 19% in the end of 2001; however, they are likely to decline at a slower rate in 2002. At the end

of June 2002, the Bank's NPL persisted at about 49,000 million baht, 17.4% of the outstanding loans. Even though it is lower than the industry average (23.8% as of March 2002), it is still considered to be high and a serious issue. Thus, the Bank needs more innovative ideas, measures and programs to work out and solve this problem effectively. Not only will the success of the NPL resolution help the Bank increase its profitability, but it will also help borrowers remain homeowners.

Apart from the NPL resolution, the Bank also needs to further develop the preventive measures in providing new loans, such as sound credit risk policy, sound mortgage underwriting criteria and guidelines, pre-purchase homeownership education and counseling so as to control the future credit risk.

- **REO Resolutions**

The inventory of real estate owned (REO), or the lands and houses acquired by the Bank through NPL debt settlements and foreclosures, has increased remarkably since 1997 to about 20,000 units at the end of mid-2002. It is likely to increase further in the years to come due to a large number of defaulters who are still in the process of mortgage enforcement. It is a heavy burden for the Bank to hold these REOs due to the rising carrying cost and depreciation. The

Bank needs to utilize them for income production by renting or selling, either through auction or negotiation. Thus, a sound REO policy as well as appropriate marketing and selling strategies need to be reviewed and further developed for the benefit of the Bank as well as the customers.

- **Mortgage Foreclosure and Deficiency Recovery**

It is noticeable that the mortgage deficiency amount after foreclosure held by the Bank increased remarkably, from only 291 million baht in 1997 to about 10,000 million baht by mid-2002. In the past, the Bank waived the opportunity to pursue the right to collect these obligations in favor of the debtors, who already lost their own homes. The Bank has to make 100% provision of loan loss for these deficiencies. Therefore, it has highly affected the profitability of the Bank. Thus, the Bank needs to review and set an appropriate policy (e.g., the introduction of mortgage insurance, the haircut policy in which the Bank allows a reduction in the outstanding principal as well as capitalized interest depending on the ability to pay of the borrowers), as well as to have carefully planned systems for collecting these deficiencies in order to balance the interest of the Bank and the suffering of the debtors/home losers.

- **Privatization of the Bank**

Recently, the government has announced a policy for potential state enterprises, including GHB, to be privatized in order to increase competitiveness, efficiency and profitability, and reduce dependency on the state. The arguable issue is whether the would-be privatized GHB will be directed to put more emphasis on profitability, for the sole benefit of shareholders, rather than being the government's instrumental mechanism in driving social and economic development for the well-being of a large number of people. For example, it is questionable whether the would-be privatized GHB will continue its emphasis in financing affordable homeownership for the low- and moderate-income groups with lower interest rates as in the past.

Post-Script: According to the Ministry of Finance's Policy announced in May 2001, the Government Housing Bank was scheduled to be privatized by the end of 2002. However, on August 20, 2002, the Cabinet passed a resolution that the privatization of some banks, including GHB be postponed without any specified schedule.

NOTES

¹ As of March 31, 2002, the exchange rate was 43.4 Thai baht per one U.S. dollar.