

Profile: The Korea Housing Bank

Formed only in 1967, the bank has already financed 1.4 million homes,

ESTABLISHED under the Korea Housing Bank Act in July 1967, the Korea Housing Bank, which has the aim of improving housing conditions through the effective raising and supply of funds, has made rapid progress since its inception.

Total assets, including the National Housing Fund accounts, whose management has been entrusted to the KHB, were 6,585.0 billion Won (US\$7.64 billion) at the end of 1986, making them 2.4 times greater than five years before. The bank's activity represents approximately 87.5% of the formal housing finance system in Korea on the basis of a housing loan balance as of 31 December, 1986. Up to the end of last year, KHB had financed the construction and purchase of 1.4 million units, totalling 6,001 billion Won (US\$6.97 billion) from the Korea Housing Bank accounts and the National Housing fund accounts.

Korea's housing situation

Some 53.3% of Korean families live in their own homes, the remainder living in rented accommodation, company houses, etc.

During the period of the 5th Five-year Economic and Social Development Plan (1982-1986), a total of 1.15 million units were constructed by private and public sector developers, and the average ratio of housing investment to GNP during the same period stood at 5.3%. The Government has planned to provide a total of 1.73 million units over the 6th Five-year Economic and Social Development Plan period (1987-1991).

With regard to this basic goal, a

variety of policies are to be pushed forward, including an increase in rental housing construction and an increase in the ratio of small houses being constructed through fiscal and financial support.

Housing finance system

The housing finance system in Korea can be divided into private and public sectors. The former consists of the Korea Housing Bank, the Citizens National Bank and life insurance companies, and the latter, the National Housing Fund and the National Agricultural Co-operatives Federation. Most of the housing finance in Korea is covered by the KHB and the NHF, and the management of the NHF is entrusted to the KHB.

Organisation

The KHB has 17 departments within its headquarters, plus a network of 168 branches in the main cities. The total number of employees stands at 7,300. The overall policies are decided by the board of directors, comprising the chairman, president and six non-executive directors. The chairman and the president are nominated by the President of the Government.

Fund mobilisation

The main sources of KHB's funds are its capital, deposits, the KHB bond and long-term borrowings, with deposits the most important. Most of the deposits are offered at the same terms as those of commercial banks, so the deposits are competitive. Exclusively offered by KHB are the

Housing Instalment Savings Deposits and the Housing Subscription Time Deposits.

The Housing Instalment Savings Deposit (HISD) is a contractual housing savings system based on a contract between a saver and KHB under which the former, in need of funds for housing construction or purchase, undertakes to save a certain monthly instalment over the specified period, and the latter grants him eligibility for a housing loan within the contract amount.

The HISD can be subscribed to by an individual or a house builder; in the case of the former the contract period ranges from three to 20 years and the contract amount is a maximum of 15 million Won (US\$17,400) with an interest rate of 9% per annum on a compound basis. In the case of subscription by a house builder, the contract periods are one, two, three, four or five years and the interest rate is 10% per annum.

The Housing Subscription Time Deposit (HSTD) is designed to give priority to subscribers who have deposited a specified amount of 2 to 5 million Won (US\$2,300-5,800) for a set period of time at the end of which they want to purchase condominium units constructed in metropolitan areas and large cities by private house builders. The HSTD interest rate is the same, 10%, annually as for the HISD.

The Workers' Asset Formation Deposit system, occupying the largest part of KHB's fund mobilisation, was initiated by the Government to help workers improve their prop-

erties. Accordingly, the depositors are offered a premium and tax relief in addition to interest on their savings by KHB so the deposit is guaranteed a higher interest rate than any other deposit instrument in Korea. At the same time, subscribers are eligible for a housing loan when they meet specified deposit requirements.

KHB Bonds have in the past been issued on the bank's own credit. However, as they were not a favourable source of funds because of their short-term repayment period and high interest payments, they are issued only when a severe shortage of funds is expected.

Housing loans

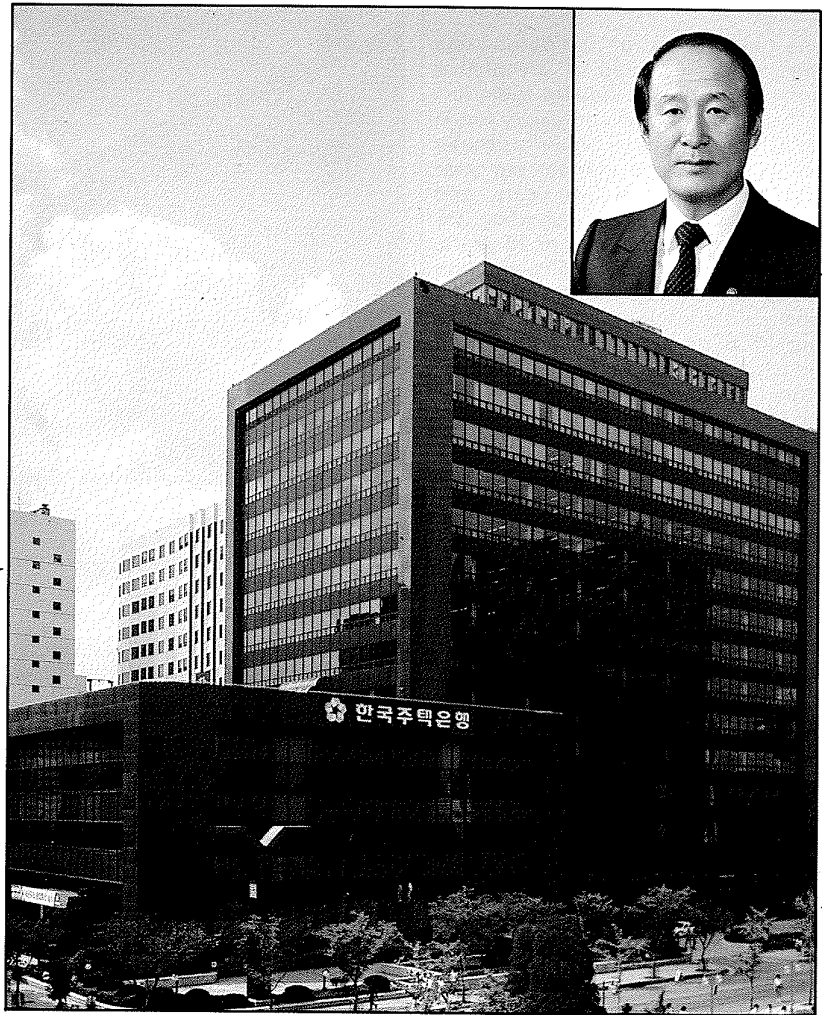
In accordance with the Korea Housing Bank Act, KHB is required to invest more than 80% of the total amount raised in housing mortgage loans. KHB's housing loans are available for individuals or members of housing co-operatives who want to construct or purchase their own homes, and entrepreneurs who wish to construct company houses to sell or to rent to their employees. They are also available to builders who will sell or rent each completed dwelling unit to individuals.

The housing loans are classified into a number of types according to their uses, for example: individual housing loans, collective housing loans, loans for builders' operation, loans for housing materials production, housing-site development loans.

The size of houses eligible for such loans is restricted up to the maximum of 100 sq metres on a floor area basis and, in case of purchase of an existing unit, there are also restrictions on the age of units financed (not older than 10 years). Loans made to home buyers have a maturity of up to 20 years and an 11.4% interest rate, and those to house builders, three-year maturities and an 11.5% interest rate. Lending to home buyers can be up to 100% of appraised net value of a unit.

National Housing fund

The National Housing Fund (NHF)



Kwan-Young Lee, pictured above with the headquarters of the Korea Housing Bank, has been KHB's president since January 1986. He has previously been Director of Planning in Seoul, the Director General of the Construction Administration Bureau, Assistant Minister of Planning and Management and Vice Minister at the Ministry of Construction.

was established by the Government as separate from the accounts of the Korea Housing Bank in July, 1988, with the object of supporting the housing conditions of low-income people. The Korea Housing Bank has been entrusted with its management and operation.

The major sources of funds for the NHF are contributions from the Government, National Housing Bonds,

National Housing Pre-emption Subscription Deposits, and deposits from various pension funds, etc. At the moment, the National Housing Bonds are divided into two types: Type I, which must be purchased by those requiring permits or licences for various activities and making various registrations, and Type II, which are absorbed by the prospec-

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tive purchasers of condominiums that are constructed in speculative areas with a bond-bidding system.

Both are low-cost sources of funds for NHF, with Type I bonds currently yielding 5% fixed interest per year with a maturity of five years, and Type II bonds currently yielding 3% per year with a maturity of 20 years.

The National Housing Pre-emption Subscription Deposit scheme was designed to induce those who wish to purchase or rent an NHF-financed housing unit constructed by the Korea National Housing Corporation or local governments to deposit, in advance, monthly instalments, and to give a saver priority for purchasing or renting the home. The deposits yield 8% interest per annum.

NHF housing loans are made primarily to private and public sector developers constructing small houses with an exclusive dwelling area of 60 sq metres or less. The loans to developers are converted to mortgages and passed on to each purchaser at the time of sale.

A low interest rate of 5% per annum is applied for rental housing construction loans for the purpose of promoting the construction of such units, while the interest rate on collective housing loans is 10% per annum, a little lower than that on commercial loans.

The future

Looking ahead at housing finance in Korea, it appears that meeting



Homes financed by the Korea Housing Bank.

people's needs for further progress in housing development through support of the public sector will be further stressed. The rationale for such a prospect is based upon the present situation in which the ratio of households residing in self-owned houses remains below a satisfactory level, and too wide a gap exists between the income level of most households and current housing prices.

However, very recently the Govern-

ment's housing policy has changed to differentiate clearly the role of public sector agencies from their private sector counterparts, so that the public sector will support the low-income brackets under a certain income level, and the financial needs of the remaining income brackets will be met autonomously in the private housing finance market.

On the other hand, in the commercial finance market, the financial deregulation that has been implemented since 1980 has progressively expanded in the areas of interest rates, financial instruments and banking management.

In these circumstances, the KHB will meet a new and more competitive atmosphere in deposits and loans. However, considering the specialised nature of the housing finance area today in Korea, it will be some time before other financial institutions participate actively in the housing finance market. The KHB's role as the leading institution in the Korean housing finance market looks set to be maintained for some time.

Housing Loan Performance by Year

Year	KHB Account		NHF Account		Total	
	Units, '000s	Amount, billion Won	Units, '000s	Amount, billion Won	Units, '000s	Amount, billion Won
1967-						
1981	298	721	366	673	664	1,394
1982	66	398	51	264	117	662
1983	77	474	81	501	158	97
1984	54	346	120	897	174	1,243
1985	52	333	98	557	150	890
1986	57	386	87	479	144	865
Total	604	2,658	803	3,371	1,407	6,029

Note: (1) Loan amounts include loans for builders' operations and facility loans for housing materials production.

(2) US\$ 1.00 = 861.40 Won (end 1986)