

Development of housing finance systems in Thailand

By Kitti Patpongpibul

THERE have been dramatic changes in housing finance in Thailand in recent years. Only a few years ago, home financing was considered severely inadequate, and many people believed foreign funds were required. Today however, Thailand's financial institutions are competing feverishly for the custom of prospective home buyers who can afford to choose from the many financing packages available. Some mortgage interest rates are even lower than the formal prime rates of commercial banks. These changes have come about as a result of the efforts of the Government Housing Bank and changes in the liquidity situation of Thailand's banking system.

In 1989, Thailand had a population of about 54 million. However, only some 10 million people lived in urban areas. Land ownership in the countryside was relatively well distributed and there was no excessive migration into cities as has occurred in some other Asian countries. The Bangkok Metropolitan Region (BMR), which comprises Bangkok Metropolitan Administration and five adjacent provinces, is the major urban area, having some 6.8 million people or 68% of the country's urban population in 1986. Other cities and towns were much smaller. It is not surprising that urban housing problems were most critical in the BMR.

Until 1984 the housing finance situation was in a poor condition as in many developing countries. Com-

mercial banks, which are the major financial institutions in the country, ignored long-term mortgage business. They preferred giving short-term credits to major clients in trades and industries. Their deposit funds were always inadequate to meet credit demands by borrowers. Hence they were not interested in small borrowers like home buyers who need long-term loans.

The Government Housing Bank (GHB), which was established in 1952 to assist home buyers with long-term finance, had difficulties in providing mortgages. There were no easy domestic long-term funding sources as in developed countries. Offshore borrowings were always

'Liquidity changes'

restricted by balance of trade deficit conditions of the country. Housing was not considered essential and had low priority compared to industrial finance. There seemed to be no easy and quick solution to the problem.

A careful study of local and international banking and finance conditions by the GHB management showed that domestic short-term saving deposits, together with variable mortgage rates, could be the answer. But unlike building societies in the United Kingdom or savings

and loans associations in the United States, the GHB had no branch network to gather savings in high streets. To establish a branch system in short order was impossible at that time under the prevailing constraints.

At the time the domestic rates of interest paid on deposits with commercial banks and finance companies in the country were regulated by the Bank of Thailand, the central bank. Uniform interest rates for public deposits were set and were below market rates. Banks with a large branch network could operate successfully in such a controlled system which was uncompetitive and unresponsive to loan market demands. However, the GHB was not a commercial bank under Commercial Bank Laws in Thailand. But by tradition it always followed existing commercial bank practices and regulations regarding deposit taking.

In July 1984, the board of directors of the GHB approved the management decision to break away from traditional practice and initiated a new saving deposit scheme with higher interest rates than the uniform rates of commercial banks. This unprecedented action defied Thailand's banking cartel and resulted in much uproar from local banking circles. Pressure was being exerted from every quarter to force the GHB to abandon its scheme. The conservatism and prejudice in banking and finance was nearly overwhelming. Even though the existing

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laws were on the GHB's side, the GHB's scheme on this new deposit might have failed if management had not persevered.

Though the GHB had only a few offices in Bangkok, the inflow of funds from this new deposit scheme was substantial and ample for its mortgage operations. The disadvantages of not having a large branch network became a blessing in disguise. GHB's administration costs were much less than those of commercial banks, which had high overheads from the inefficiency of the banking cartel system. With further efforts in reorganisation, computerisation and a move to opt out of many traditional banking in-house operations, such as property valuations and legal actions on delinquent accounts, the GHB has been able to increase its mortgage lending capacity very quickly.

Having ample funds and lower overheads, the Bank started to lower mortgage rates without any subsidies from the Government. The housing industry in Bangkok Metropolitan Region was revived and began expanding from the end of 1985 onwards, ahead of present eco-

nomical upturns. An even more favourable housing finance condition for Thailand is yet to come.

In late 1986 the GHB moved into a new head office with much bigger loan processing facilities and started new strategic moves to refinance home owners who still had expensive mortgages with other financial institutions. This action, together with the state of surplus liquidity and deregulation in the domestic banking system at the time, caused commercial banks and other financial

'Mobilising savings'

institutions to cut their mortgage rates and provide better mortgage loan terms to their existing customers in order not to lose their custom to the GHB.

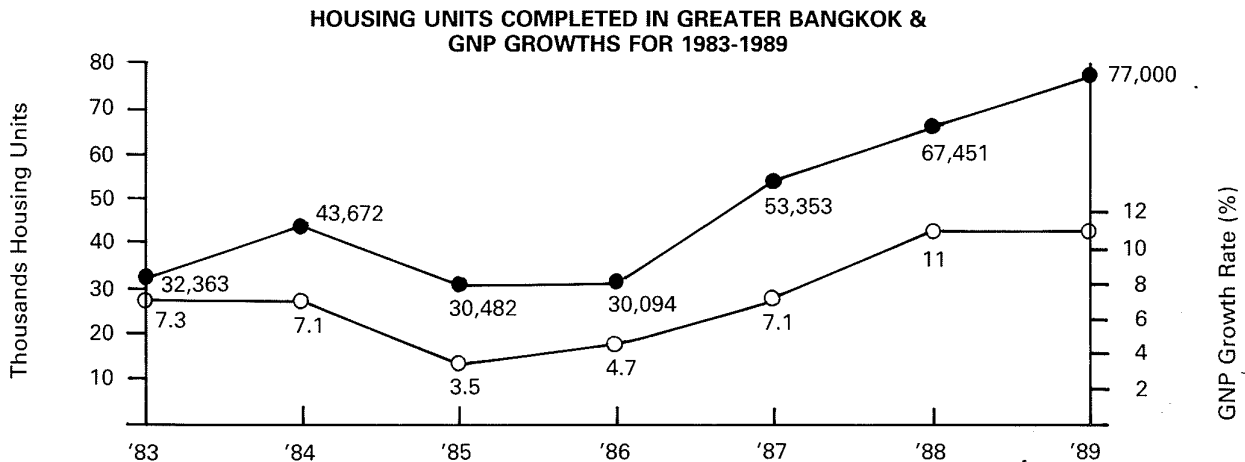
Since then commercial banks with

vast branch networks have been competing fiercely among themselves and the GHB to provide better and better housing finance packages for home buyers.

Home building industries had revived in late 1986 and continue into the present time. When the new homes market for higher income earners was saturated, the developers moved down and built cheaper and cheaper homes for the lower income buyers. Since long-term mortgage finance at reasonable costs was readily available, housing demand skyrocketed in 1987 and continued to do so in 1988 and 1989. The chart clearly indicates the record breaking number of housing units built in the greater Bangkok Region.

The lessons from our past experiences showed that domestic savings could be mobilised for housing finance. But a sound local financial market is essential. Mortgage lending must be based realistically on the ability of home buyers to repay. Many established local prejudices against financial deregulation and innovation have to be overcome.

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Source: GHB, NESDB.

Note: Data prior to 1987 included all buildings completed (factories, shops, etc); thereafter only residential units were included. 1989 figures are estimates.

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Benefits from open competitive financial markets to the lower income earners in general are much wider than subsidised housing. But loan processing, servicing techniques and computerisation are equally crucial for the success of home mortgage development, which is a retail banking operation.

It is well understood that a government housing finance institution, such as GHB, should strive to offer loans with the best possible terms to borrowers in accordance with government policies. However, it should be stressed that such endeavours must not go overboard and endanger the stability of the institution itself.

Indeed, such a situation will in the long run prove to be a disservice to everyone. Problem loans can quickly accumulate which are not only diffi-

cult to rectify but the costs of doing so would often prove higher than the problem loans themselves.

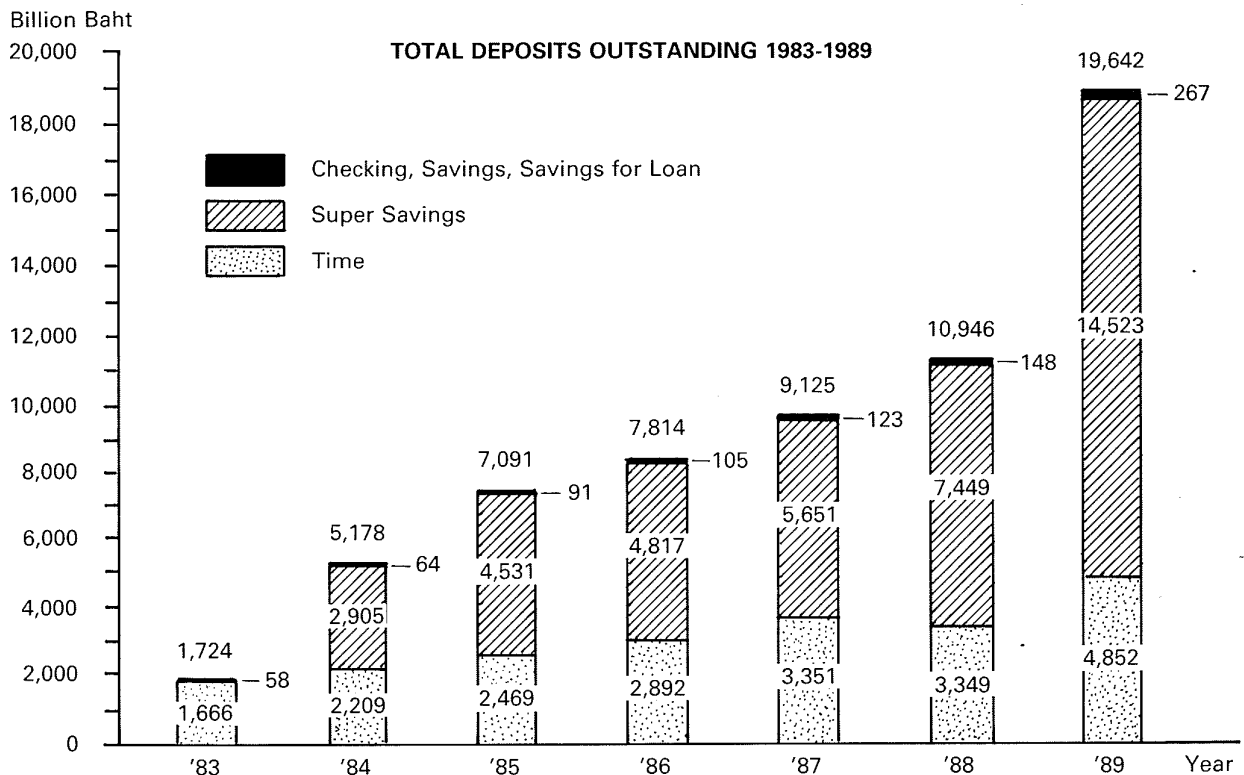
Such situations are evident in the past attempts to shore up problem-plagued finance companies and commercial banks during the past five years. As such, the successful turn-around of the GHB from the crisis of 1981-1982, during which it encountered a severe liquidity situation and a large problem-loan burden, should be seen as a notable success for the management.

In order to improve the affordability of home buyers, many countries have resorted to arbitrarily offer lower-than-market mortgage interest rates with state subsidies — usually from treasury sources. Most will fail,

for the subsidy needed is normally larger than the amount that the revenues of developing economies could sustain, resulting in insufficient "cheap" mortgage loans available and heavy competition for them.

The ability of GHB in extending unsubsidised mortgage loans with lower-than-market interest rates to anyone that requires one without having to resort to setting quotas is a major contribution to helping to solve the housing problem in Thailand.

Moreover, GHB's computerisation programme is quite advanced. Although on-line computer facilities are usually available for handling deposits at most domestic commercial banks, none have yet developed computer facilities for handling lending activities to the full extent that GHB has. This has given GHB an



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Government Housing Bank, Assets & Liabilities, End 1988

<i>Liabilities</i>	<i>Baht m</i>	<i>%</i>	<i>Assets</i>	<i>Baht m</i>	<i>%</i>
Demand deposits	7,841	44	Loans & overdrafts	14,383	80
Time deposits	3,428	19	Due from banks	1,397	8
Domestic borrowing	1,746	10	Cash and deposits	201	1
Foreign borrowing	2,785	16	Other assets	1,920	11
Other liabilities	639	4			
Equity and reserves	1,464	8			
Total	17,901	100	Total	17,901	100

Government Housing Bank, Loans, 1983-93

Year	<i>New Lending</i>			<i>Outstanding Loans</i>		
	Home Mortgages Baht m	Construction Baht m	Total Baht m	Home Mortgages Baht m	Construction Baht m	Total Baht m
<i>Actual</i>						
1983	871	—	871	6,433	2,727	9,190
1984	1,466	292	1,758	6,928	3,019	9,947
1985	1,704	398	2,102	7,845	3,147	11,262
1986	2,022	157	2,179	8,316	3,574	11,809
1987	2,485	176	2,661	8,941	3,750	12,691
1988	6,210	—	6,210	12,126	3,733	15,859
1989	9,475	131	9,606	17,595	3,864	21,459
<i>Projections</i>						
1990	7,700	—	7,700	20,663	3,733	24,396
1991	8,470	—	8,470	24,868	3,733	28,601
1992	9,317	—	9,317	29,113	3,733	32,846
1993	10,249	—	10,249	33,470	3,733	37,203

obvious advantage in managing its mortgage loans more efficiently. Indeed, the GHB is developing its loan management system further and will have on-line facilities in Thai language available by mid-1990 while its deposits will have on-line facilities by early 1990.

Vast efforts were needed over the last six years to have made such progress but it is gratifying that the results have well justified the efforts expended and have enabled GHB to promote the current housing boom, despite the bureaucratic hindrances that have to be surmounted.

GHB is also a leader in developing customer-friendly techniques for local mortgage lending services. In the past, obtaining a loan was a time-consuming process — borrowers would normally be treated off-handedly, while on the other hand, depositors would be treated reverently. GHB pioneered the establishment of easily understood borrowing criteria and conditions, printed in

handy brochures and manuals for all potential customers to peruse and to choose the particular arrangements or services best suited to their needs. They are also assured that there will no longer be any uncertainty about GHB having the funds to lend, if their status is satisfactory. This has helped to transform mortgage loans from a sellers' market to a buyers' market today.

GHB's techniques in utilising short-term funds for long-term lending had encountered vehement objections from officials of various bureaucracies. This chiefly concerns GHB using funds from its Special Savings Account deposits, which are demand deposits, for long-term mortgage lending. GHB has had to make the case that banking crises including bank-runs, whether in Thailand or elsewhere, were not caused by the mismatch between funding and lending tenors, but rather by having substantial amounts of problem loans resulting

from various causes which consequently eroded public confidence in those institutions and created panic by its depositors.

On the contrary, having long-term funds could instill a state of over-confidence and being lax in lending, leading to having problem loans causing creditors to seek prepayment and other difficulties. Too many long-term funds obtained through offshore borrowings by developing countries could expose one to foreign exchange risks that out-weigh their advantages.

The benefit of GHB's non-reliance on off-shore funding sources is only recently appreciated with the lower exchange-losses incurred.

GHB reconciles long-term lending with short-term funds by making all loan interest rates adjustable in tandem with the money market rates. The adjustable lending rates help to prevent GHB incurring losses when deposit rates rise above the originat-

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ing mortgage rates. Concurrently, to prevent problems that borrowers may encounter when rates are adjusted frequently, the GHB has added a small margin above the actual monthly instalment needed, so that the instalment amounts do not have to be changed with every interest rate adjustment; in such cases the term of the mortgages may be lengthened or shortened accordingly. Such a technique is beneficial in the long run to both the borrower and the Bank.

Property valuation in the commercial banking industry is still quite undeveloped in comparison with that of other countries. There is no institution that could establish professional standards, ethics and help to develop valuation techniques in Thailand. Usually a valuation is deemed to be acceptable if the valuer is considered to be honest and is familiar with the market. As such, financial institutions have to make business decisions based on incomplete information and unsound collateral values. Furthermore, various institutions including government agencies each possess their own methods and criteria of conducting valuations which have resulted in a good deal of confusion and uncertainty.

'Confusion over values'

In 1986 the Government Housing Bank, in co-operation with the Lands Department, institutions of higher education and other interested parties, established a national association for property valuers. This association is charged with the objective of promoting property valuation as a profession, to improve technical know-how through training programmes offered by such institutions as Chulalongkorn University, Thammasat University and other institutions; as well as engaging in

exchanges of information with its ASEAN counterparts, and encouraging the establishment of more professional offices offering valuation services.

GHB became the first Thai bank to employ external valuers to undertake virtually all of its property valuation work on an on-going basis. Because of the lack of legal and other regulatory guidelines controlling the conduct of valuers, the GHB requires that all valuers be qualified by the Thai Valuers Association by becoming members of the association. The GHB has also pre-designed report formats and set up systems for rechecking the work of such external valuers by sampling. GHB believes that valuation standards will improve with the increasing specialisation and professionalisation of the activity. It has, moreover, enabled the GHB to increase its lending capacity without needing to expand its manpower, and at the same time giving GHB customers a convenient and fair deal.

Generally, local banks deal with delinquent loans without much regard for the economics of costs and benefits, often opting for foreclosure through legal procedures rather than giving attention to the details of each case and determining the best solution for all concerned. Such policies have generally rendered loan supervision and legal units of banks poorly equipped to make decisions based on business criteria by recognising or innovating opportunities to "save" the situation in ways that could benefit both banks and the customers.

Because the foreclosing process is very time consuming and incurs high expenses, the GHB has computerised a good deal of the data involved so that they may be recalled quickly and efficiently, especially when the customers come forward to seek debt-rescheduling or other compromises. GHB offers many options for the customers to re-schedule delinquent loans such as

extending the loan terms, reducing interest rates, etc, all of which are clearly explained in printed handouts so that they may first study the options available prior to discussing with GHB staff.

Needless to say, such compromises workout to the best advantage of both the customers and the bank. Even after foreclosure or during the litigation process, the GHB will allow such customers to seek compromise

'Fair deal for customers'

solutions. With the above procedures now operational, the GHB can handle a large number of customers with the minimum amount of staff time and expense. In the final analysis, the best cure is still a preventive one through having competent loan officers making careful analyses and judgements on the ability of prospective borrowers to service the loans.

Procedures and technical developments, together with organisational adjustments and changes, are activities that require on-going attention. Investment in new equipment has been a particularly difficult process, subjected to nit-picking control which state enterprises, including the GHB, must endure. More often than not, controlling agencies do not understand how to conduct the business, but would tend to insist on the bank taking certain decisions against its better-judged views. With such difficulties, the fact that GHB has been able to successfully assist the development of the housing industry and the housing consumers is a continuing source of pride. ■

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Note: There were 25 baht to the dollar at end of 1988.