The Institutional Evolution of the Government Housing Bank of Thailand

by Sidhijai Tanphiphat

BACKGROUND

The Government Housing Bank (GHB) was established in 1953 by the Government Housing Bank Act as a specific-purpose financial institution[1] and given the status of a state enterprise.

The proponents of the GHB clearly wanted it to assist people to become home owners. Its banking role has been narrowly confined to mobilising funds through various means in order to finance housing related undertakings namely housing construction and home mortgages. It may not finance any other activities. The Bank had also been given the responsibility to develop housing for the general public.

Given the fact that in the early 1950s housing had not yet become a commodity in the market place - people normally built their own homes or had them built as they were needed - and that at the time the great urbanisation and population explosion, particularly in the capital city of Bangkok, had not really gotten under way, there was little demand for housing loans. Symptoms of housing problems such as slum and squatter settlements were few and far between. The population of Bangkok was then about 1.5 million compared to 8.8 million today.

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GHB became the first housing developer in Thailand. It acquired land and developed several sub-division projects in Bangkok. As there were few applicants for other loans, the majority of GHB's funds were utilised to finance its own projects, and provide end-finance to buyers in these projects.

The GHB quietly existed for the first two decades of its existence. Its only achievements were a few housing sub-division projects.

From the mid 1960s onwards, land sub-division projects developed by the private sector began to appear. The developers of these modest land only sub-division projects would be the forerunners of the massively successful housing development companies operating today.

Later it was found that land lots with proper infrastructure and houses were in more demand. Thus, land and house developments became the standard package. The population boom, coupled with rural-urban migration, caused the demand for land and housing to intensify. Shelter for the poor had become a problem, and by the early 1970s, one quarter of Bangkok's housing stock was classified as slums and squatter settlements. Initially, commercially developed housing was targeted at the top 10 percentile of home buyers.

The deterioration in housing conditions meant that the GHB now had a vital role to play in financing projects and end-buyers. From 1976 onwards, the loan assets of the bank grew rapidly (see figure 1).

In response to the perception that good housing for the poor could not be produced by the market place and state intervention was necessary, the government established the National Housing Authority (NHA) in 1972 and transferred GHB's land stock and unfinished project assets to the NHA. Henceforth the GHB's role would be limited to housing finance.

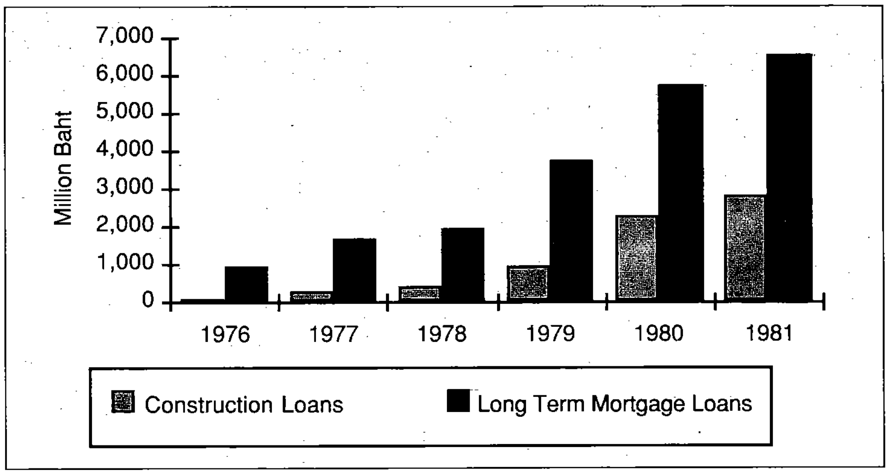
The rapid growth in loan advances, especially of construction loans to many inexperienced builders posed some problems for the GHB, and not unexpectedly, some bad decisions were made.

Funding shortfalls, bad loans and other problems came to a crisis situation for the Bank in the wake of the economic recession created by the second oil shock in the early 1980s.

In a pivotal move in 1982, the Ministry of Finance changed the Board of Directors of the Bank and brought in a new professional management, and also provided soft loan support through the Bank of Thailand.

The following several years would be a period of transition for the whole economy during which the government wrestled with restructuring a near bankrupt treasury, high foreign debts and an inflationary economy.

Figure 1 : Construction Loans and Long Term Mortgage Loans of the Government Housing Bank, 1976-81



The dose of monetary and fiscal austerity was bitter but would prove its worth subsequently. The housing developers suffered stalled projects, extremely high interest rates when loans were available, and the first depressed housing market ever experienced. During this period the bulk of project financing was provided by the commercial banks and finance companies. They would provide mortgage loans mainly to buyers of the projects they were financing. Generally speaking, the commercial banks and finance companies which held about 70% of the companies financial assets gave very little priority to home loans, preferring commercial and industrial credits and generally regard home mortgage finance as a mismatch for its funds which consisted of mainly short-term deposits. When available mortgage loans were rarely longer than 10 years and loan to value ratios were mostly 70% or less[2] and interest rates were atleast 2-3% above prime. With GHB hobbled by funding constraints and operational difficulties, the situation for home-buyers was bleak. What's more, often when liquidity was tight, commercial banks would first shut off home loans. The uncertainty of end-financing availability played havoc with project developers and home buyers alike, and undoubtedly prevented many prospective home owners from fulfilling their aspirations, and suppressed housing demand.

Not unexpectedly, total outstanding home mortgages were negligible, accounting for only 3% of the total credit outstanding in 1981, and by 1985, this figure had increased only marginally to 4%.

During 1981 to 1985, total outstanding home loans grew at an annual compounded rate of 16.03%, while those of commercial banks grew at a compunded rate of 24.16%, and those of he second largest player, the Government Housing Bank, grew at 3.95% (See Table 1). Consequently from 1981 to 19485, the commercial banking sector's market share of all outstanding home mortgages rose from 39.79% to 52.78% and that of GHB contracted from 36.61 to 23.58%. Other types of institutions involved in home mortgage lending managed to keep their market shares of about 24% over the same period. During this period, GHB underwent a painful reform undertaken by the new management which subsequently positioned it to re-emerge as a much sounder institution and become a market leader.

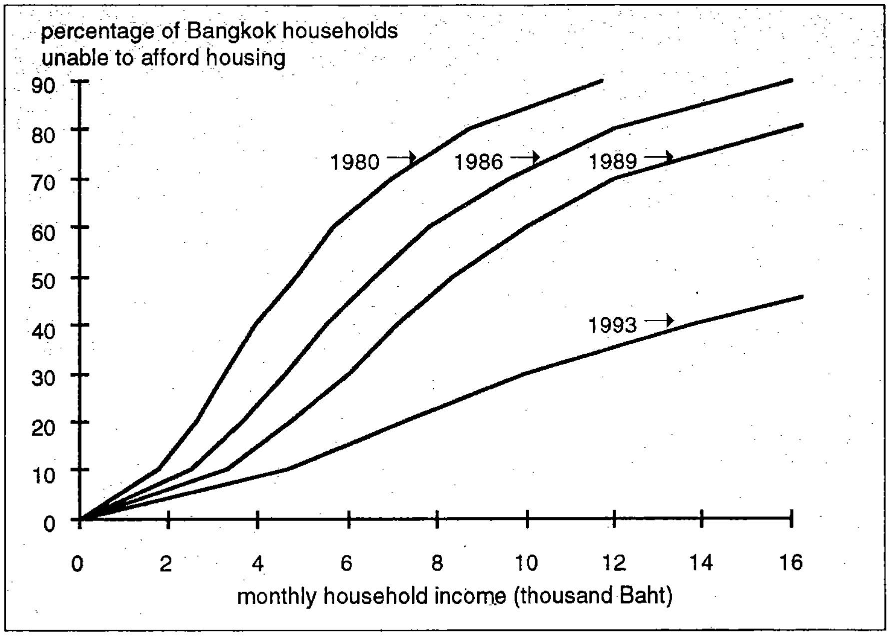
HOUSING FINANCE AND THE HOUSING MARKET

Even though until the early 1980s, housing finance could be regarded as being largely unsupportive to housing development, over the preceding 15 years the robust eco-

Table 1 : Outstanding Home Mortgage Loans by types of Financial Institutions, 1981-1993

	Value in million Baht				Growth Rate Per Annum (%)		
Types of Institutions	**1981**	**1985**	**1990**	**1993**	**1981-1985**	**1985-1990**	**1990-1993**
Commercial Banks	7,062	16,977	95,278	225,919	24.16	41.20	33.35
Government Housing Bank	6,497	7,585	25,959	68,105	3.95	27.90	37.92
Finance Companies	1,481	2,762	10,035	27,930	16.86	29.44	40.66
National Housing Authority	1,562	2,973	2,756	6,492	17.46	-1.50	33.06
Life Insurance Companies	565	1,235	1,743	1,723	21.59	7.13	-0.38
Credit Fonciers Companies	482	249	1,604	2,701	-15.22	45.14	18.97
Government Savings Bank	97	384	627	648	41.06	10.30	1.10
TOTAL	**17,746**	**32,165**	**138,002**	**333,518**	**16.03**	**33.81**	**34.20**

Figure 2 : Affordability of Developer Built Housing in Bangkok, 1980-1993



nomic growth and purchasing power available to certain groups of the population pushed housing stock growths to about 6 percent each year, while the population grew at about 3.5% in the greater Bangkok area, where 60% of Thailand's urban population reside. Problems with housing finance notwithstanding, the housing situation managed to show gradual improvements, evident by indicators such as the declining growth of slum housing and a rapid - albeit from a small base - expansion of a developer-built housing and increasingly affordable private sector built housing (see Figure 2).

It should be noted that the housing supply in Thailand is mostly built by the private sector which include individuals who had their homes built as well as commercially built housing for sale by housing developers. Less than 8% of the housing stock in Greater Bangkok comprises public housing.

As Figure 3 shows, the housing market for the second half of the 1980s distinctly shifted into higher gear. Between 1987 and 1983, an unprecedented and extended housing boom was witnessed, that saw housing completions expand from 30,000 units in 1986 to 53,000 in 1987, 647,000 in 1988, 80,000 in 1989, 102,000 in 1990 and about 130,000 in 1991. However due to the advent of the Gulf War, other political and economic constraints and over-supply in certain types of housing units, the housing boom has subsequently moderated, but the number of units is still growing at a respectable rate.

Table 2 shows the dramatic increase of the housing investment to GNP ratio rising from 7.21% in 1986 to 9.28% in 1990 and 9.62% in 1991.

With an underpinning buoyant economy, the dramatic improvement of the housing finance sector was the spark that triggered the boom and helped to sustain it. As Figure 3 shows, the economic growth has been fairly robust at over 7% since 1987. This was because housing finance became much more readily available, with vastly improved terms, hence permitting many more potential home buyers to realise their home ownership goals. The pent-up demand released by the availability of attractive home loans created the housing boom which is further boosted by the increasing purchasing power of home buyers brought about by the strong economic expansion

Figure 3 : GDP Growth Rates and Annual Housing Completions in Greater Bangkok

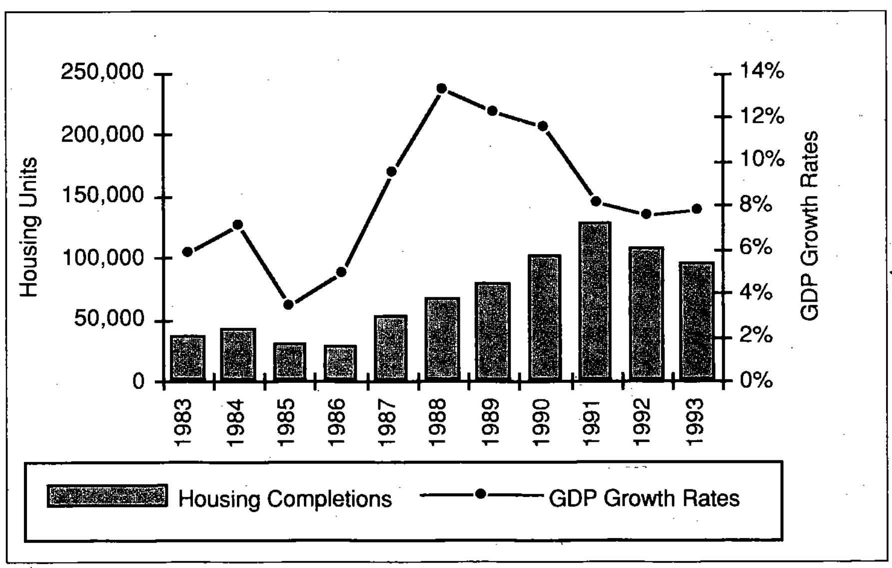


Table 2 : Economic Data of the current Housing Boom *million Baht*

	1986	1987	1988	1989	1990	1991	1992
Housing Investment	80,119	100,613	115,308	158,374	200,828	237,237	222,712
Gross National Product	1,110,980	1,277,519	1,535,034	1,833,324	2,163,781	2,466,741	2,757,954
Gross Fixed Capital Formation	292,193	359,269	478,534	586,318	759,870	848,121	900,144
Housing Investment : GNP (%)	7.21	7.88	7.51	8.64	9.28	9.62	8.08
Housing Investment : Gross Fixed Capital Formation (%)	27.42	28.00	24.10	27.01	26.43	27.97	24.74

that has now lasted several years.

WHAT CAUSED THE HOUSING FINANCE REVOLUTION?

The following are suggested as being the major events that brought about the relatively sudden changes to the housing finance situation.

A Deepening Financial System

An important prerequisite for an expanding housing finance system is the ability of the financial system to allocate sufficient resources throughout the economy, and for home mortgage financing.

In this respect, the assets of the financial system of Thailand has grown at a compounded rate of 19% since 1970, which slowed to 16% during the first half of the 1980s, and grew sharply in 1987 and 1988 at 30% and 25% respectively. As an indicator of the depth of the financial system, the ratio of broad money or M2 to GDP could be used. This ratio grew at a compounded annual rate of 2.3% between 1960 and 1980, which grew to 7% between 1980 and 1988. The 1988 ratio at 65% was apparently considered high[3], and exceeded by only a few other developing countries. This ratio grew further to 74.5% in 1990 and 79.5% in 1992. This is the result of the rapid financialisation of saving in response to high real interest rates and increased confidence in the economy due to successful macroeconomic management. It also shows that the financial sector's growth is able to keep up with the booming economy.

The level of financial deepening at about 50% was found in some countries as the take-off point of housing finance systems[4].

Government Policy Support for Housing Development

The change of emphasis in government policy from one of direct construction of public housing to one of providing market supports and removing market impediments in order to foster a more efficient housing market gave rise to a number of significant boosts to the housing market and housing finance demand:

- Enhancement of effective demand of home loan consumers through allowing a portion of home mortgage interest expenses to become income tax deductible from 1987 onwards. Though the financial benefits to home mortgage borrowers are marginal, it provides a positive signal to the housing sector that the government was now seriously supporting it.

- To encourage commercial banks to participate more wholeheartedly in home mortgage lending, the central bank, The Bank of Thailand, in 1987 permitted capital adequacy concessions to home mortgage credits (only 80% of home mortgages of US$ 16,000 and less are regarded as risk assets which must be covered by a capital adequacy ratio of 8% for commercial banks).

Since January 1993, The Bank of Thailand has adopted Bank of International Settlement (BIS) rules which permit home mortgages to be regarded as 50% risk assets. This further enhances the attractiveness of home mortgage lending for commercial banks.

A Revitalised Government Housing Bank

GHB's painful turnaround effort began in 1983. Several years later, it emerged as a leading financial institution in Thailand, in terms of market share as well as consumer recognition. Indeed, the government in late 1993 had decided against privatising it, preferring to maintain the GHB as a housing policy intervention instrument. The following are some of the key milestones in GHB's development:

- From the former position of having to source funds from off-shore and local intermediaries, the GHB, in 1984, began to successfully tap the savings market directly with a number of attractive deposit instruments. Today, deposits constitute a very large share of GHB funds and flows could be adjusted to meet its needs through adjusting deposit rates in tandem with market situations. With a financial system growing in breadth and depth during the past 3 years, GHB has been able to access wholesale funds through debt instrument issues at fixed interest rates close to treasury bill rates. Funding source diversification is very important given the increasing magnitude of its needs. Without such funding sources, it would have been very difficult for GHB to fund lending volumes as large as US$ 1,200 million in 1993, and a projected US$ 1,800 million in 1994 - an amount which constitutes about 30% of the total annual incremental new home mortgages.

- With adequate and stable funding assured, GHB embarked on an aggressive strategy of expanding its mortgage lending and improving the term of its mortgage loan products by developing its techniques, and developing technology that enables it to offer the lowest interest rate mortgages in the market. GHB has been able to rapidly expand its branch network, both in the Bangkok metropolitan region as well as in the provincial cities throughout the country. In doing this, GHB managed to increase its market share from 16.7% in 1988 to 20.4% in 1993.

- In 1987, GHB moved to a modern and spacious Head Office with vastly expanded capacity to handle additional business, and began to offer refinancing loans to existing mortgage holders who were saddled with fixed high rate loans. However, when faced with the prospect of losing good assets, GHB lowered its interest rates for home mortgage borrowers (see Figure 4). This signified the new era of competition in the home loan industry which has remained ever since.

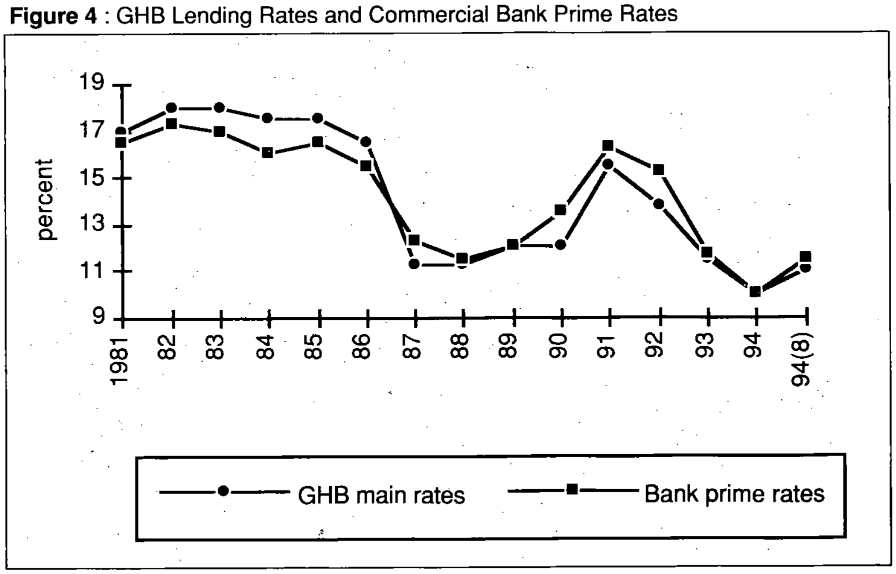
- In 1994, GHB expanded its services nationwide by introducing an innovative branching strategy to save start-up investments and risks through its network of sub-branches. Its permit to start branching was only granted in 1988. Today, GHB has 30 main branches and 70 sub-branches. Sub-branches basically consist of a desk and two GHB staff accepting mortgage applications and processing them as off-premises sales counters of GHB main branches. They open on fixed days of the week but not every day, depending on customer traffic. When a critical customer volume is assured, a main branch with full service is opened. The risk of an unprofitable branch is minimised and extensive market surveys prior to branch planning are not needed. All main branches have been able to make profits within two years.

- New products such as fixed rate initial period (3 to 5 years) on a 25 year mortgage have been recently introduced with great success. Prior to that, most mortgages underwritten in Thailand had been adjustable mortgages and this new product is able to give comfort to borrowers having to bear the heaviest interest burden for the initial years of the loans. GHB is able to match its bond issue funds which bear fixed interest rates to these loans.

- GHB has embarked on a pilot project to provide access to home loans for rural borrowers through agriculture cooperatives which will on-lend funds provided by GHB. Until now, most of GHB's borrowers have been urban-based, and it has had very little experience in rural lending, while many agricultural co-operatives have been lending to their members very successfully for various purposes.

- In order to provide additional convenience to its customers, as well as to spread out traffic volume, GHB's Head Office loan counter opens six days a week from 7.30 a.m. to 4.30 p.m., while its competitors open only five days a week from 8.30 a.m. to 4.30 p.m.

Figure 4 : GHB Lending Rates and Commercial Bank Prime Rates



Housing Finance Becomes Favoured Business

A lengthy period of high liquidity was experienced between 1988 and 1992, which was to change the housing finance scene profoundly. During this period, all commercial banks and other financial institutions swelling with deposits went all out to develop and compete for home loan business by introducing various home loan products and offering increasingly attractive terms to

Table 3 : Outstanding Mortgage Loans to All Loans of Financial Sector

	1989	1990	1991	1992
Mortgage Loans (ML)	100,905	138,002	181,475	242,768
All Loans (AL)	1,482,613	1,936,424	2,274,956	2,811,949
ML / AL (%)	6.81	7.13	7.98	8.63

compete with eachother, as well as with the Government Housing Bank for business. Loan-to-value ratios of 80 percent became commonplace, as did 25 year mortgages, and at one time, home loan interest rates were lower than the prime rate for the first time ever - even though they were merely "teaser" rates - it demonstrated that home loans were now serious business for them. Of course, they found, as GHB had, that home loans are profitable and having created the home loan products, they have become a normal credit sub-sector regardless of the financial system's liquidity situation. With some 3,000 commercial bank branches throughout the country, home loans became very accessible.

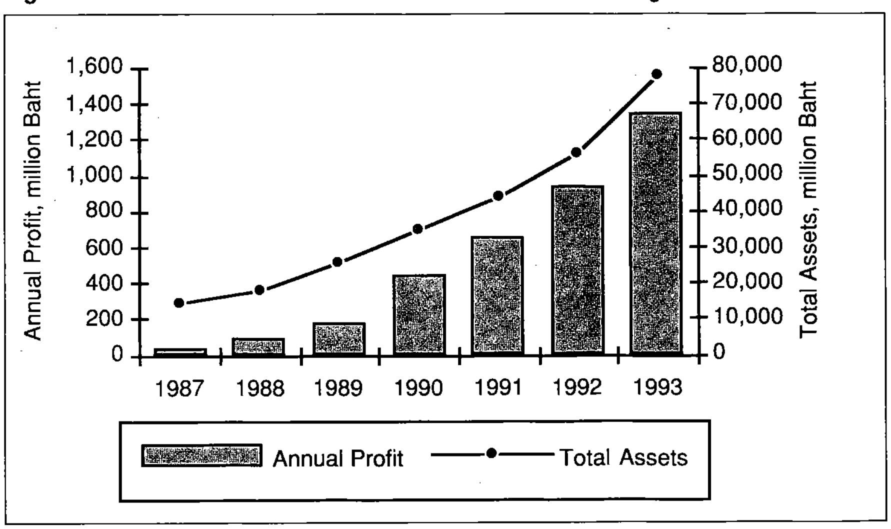
Without doubt, the housing-boom from 1987 which still continues in 1994 could not have taken place without the above-mentioned broad based housing finance development.

FUTURE PROSPECTS

The housing finance sector in Thailand has developed as an integral part of the overall financial system. There is no directed-credit arrangement, and resource allocation is affected through free market forces. The government has also embarked on a programme to establish a secondary mortgage market by 1995.

With the large number of players in the industry, it is unlikely that a dearth of home loans would be experienced again. Interest rates may rise depending on the liquidity situation of the financial system or on government monetary policy, but home loans will always be available. Indeed, availability of home loans is now taken for granted and consumers now shop for the best deal, rather than accept whatever they were offered, as in the recent past.

Figure 5 : Annual Profit and Total Assets of Government Housing Bank



Even though the total outstanding mortgage credit of all financial institutions had been expanding quite rapidly at a compounded annual rate of 34% from 1989 to 1992, the total volume outstanding remains relatively low at only 8.63% of the total credit of the financial system in 1992.

With an economy that is projected to grow at 8%[5] or more over the 7th Plan period (1992 to 1996), coupled with the rapid industrialisation of the country and heavy demand for labour from the urban sector, the of urbanisation is expected to grow from 28% to 35%-40% within the next ten years.

The main task of the housing finance industry appears to be to enhance its capacity and capability[6] in order to keep up with the expected rise in demand. Judging from the recent industry performance in meeting the demands of the seven year housing loan, the home loan mortgage finance industry should be able to rise to the challenge. ■

NOTES

[1] Knight, Alan, *Housing Finance Study in Thailand*, the final report to the Ministry of Finance, January 1982, pp. 50-51.

[2] The study by Alan Knight found that walki-in customers were generally able to abtain loans with 60%-70% loan-to-value ratio and tenor of only 5 years to finance purchases outside of projects the commercial baks were supporting.

[3] World Bank, *Thailand Financial Sector Study*, May 1990, pp. 25-26.

[4] Mayo, Stephen K., *Housing Finance Development: Experiences in Malaysia and Thailand and Implications for Indonesia*, p. 13.

[5] NESDB estimate.

[6] During 1991, the Government Housing Bank installed the first computerised on-line loan origination and individual portfolio servicing system in the country.