

## **Effective Housing Finance System**

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An effective housing finance system is one that can mobilize consumer savings and investor capital and provide adequate housing loans to those in need at the lowest cost in accordance with the country's legal system, economy and general social conditions.

In the writer's opinion, the following factors contribute to an effective housing finance system in any country:

1. The government should enact a law on land zoning according to use. Such zoning can be adjusted every ten years by public hearing corresponding to urban expansion. This enables the government to appropriately formulate policy on resource allocation, environmental management and to appropriately provide a public utility system, which prevents disorderly urbanization in the future.
2. There should be a law supervising real estate developers. A real estate developer is to market a project with good building standards and public utilities adequately corresponding to housing density, with no harm inflicted upon the environment. The law must protect the consumers and should stipulate that a developer who markets a project to sell land inclusive buildings at a price of more than 500,000 baht per one housing unit must allocate not less than 20% of the project for the construction of the housing inclusive of land to sell at a price lower than 500,000 baht per one housing unit. This will enable low-income people to own their home in a location not too far from the urban areas with good public utilities.
3. The National Housing Authority should be set up with the responsibility of constructing housing for rent and launching low price housing projects for sale in response to the demand of low income people, urban workers, workers in industrial areas, slum dwellers, and people whose houses are demolished for construction of public utilities and whose houses have been burnt down.
4. The Government should have laws to deal with land ownership, the use of land for making a living and the use of land for proper dwelling.
5. The Government should have effective laws on bankruptcy and on mortgage enforcement.
6. The Government should have a law for setting up commercial banks that give industrial, commercial and housing credits under the supervision and inspection of the central bank so that the banking system is up to standard, under good supervision and good risk control, and has stable capital and money/bond reserves under the law. The Government should have law for setting up a fund that maintains commercial bank liquidity and a law that guarantee people's deposits.
7. The Government should set up the Secondary Mortgage Market Corporate, functioning as a middleman who buys housing credits and performs securitization of assets thereafter sell them to various funds and life insurance companies, which minimizes the financial institutions' risks on liquidity, funds mismatching and an inadequacy of funds for risky assets.
8. The Government should set up the Central Credit Information Company with its major shares being held by financial institutions. Therefore, its administrative system is flexible and a quality of "business character". The Government should not hold shares exceeding 30% of the company's shares. The Government's shares mean

to be “golden shares” that build confidence in stability, information usage and that guard members’ private information.

### **Effective Housing Credit System**

The National Housing Bank or National Housing Finance Corporation is to be set up with the responsibility of providing housing loans so that people can own their homes according to their financial status. The nature of this institution is as follows:

1. a specialized housing credit institution whose 100 % shares are held by the government;
2. a deposit-taking system which enables the institution to take deposits from people without depositing legal specified reserves with the central bank. Instead, it must install an appropriate risk management system on liquidity;
3. competitive operation, as any other business enterprise among domestic commercial banks and agents or branches of foreign banks;
4. supported by the government’s provision of long term capital in the form of guaranteed foreign loans and bond issuance of not more than 12 times the capital fund. The government guaranteed bonds can be considered money reserves under the laws on commercial banks;
5. granted with a privilege, as a governmental organ, not to pay income tax although 30% of the net profit must be remitted to the government treasury.

### **Performing loan transactions according to the objectives of the loans:**

1. to provide short term loans for housing project developers with the following conditions: the ceiling of a loan per collateral and the disbursement of a loan must not be more than 50% of the price of the land appraised before development and not more than 70% of the value of development and building construction, while interest rates fluctuating in response to market interest rate and a debt payment must be made when ownership over a piece of land is transferred and not later than the date due in line with the project implementation schedule;
2. to provide long term housing loans, which can be categorized according to the following types of customers :
  - a. individual long term loans for the general public;
  - b. individual long term loans under a housing project;
  - c. welfare loans for civil servants state enterprise employees and private business employees dictate that the employing agency concerned and a loaner enter into contract, allowing monthly amortization from the loaner’s salary to the bank. The bank shall reduce 0.5 % from the normal interest rate per year throughout the entire contractual term. Upon termination of the loaner’s work, the employing agency shall notify the bank and the bank will classify such loaner as a normal loaner and adjust the reduced interest rate to the normal interest rate. Loans under the savings and loan contract will be entitled to a reduction of 0.5 % from the normal interest rate per year. If a contractual loaner wishes to use his/her right under item No.2.3 the loaner will receive a reduction altogether of 1% from the normal interest rate per year. Upon paying a fixed monthly deposit for the period of two years to the bank, the contractual loaner is able to borrow money from the bank not higher than 90 times of the monthly deposit within 1 year
  - d. welfare loans for civil servants, state enterprise employees and private business employees under a special program, dictate that the employing agency possess a deposit balance not less than the welfare loan balance due at any time and that the employing agency and loaner enter into contract, allowing monthly amortization

from the loaner's salary to the bank who charges a loan interest rate equal to the interest rate of the fixed deposit for 1 year plus 1.5 % per year.

### **Types of Individual Long Term Loans**

1. For mortgage loans for all types of customers, the bank provides a loan not more than 80 % of either the appraised value or the buy and sell price for a piece of land with/without building or condominium, whichever is less. The term of a loan is not more than 30 years; when added with the age of the loaner, not more than 65 years.
2. The bank shall charge an interest rate at 1% higher than the normal or the agreed interest rate for mortgage loans 100% of either the appraised value or the buy and sell price for a piece of land with/without building or condominium, whichever is less, and assign an insurance company to undertake 20% of the risk; the bank will pay the guarantee fee for the insurance company. If the bank takes legal action to enforce the mortgage, the amount of the difference not exceeding 20% of the loan will be covered by the insurance company. When the balance due is not higher than 80% of the newly appraised value, the guarantee has ceased and the interest rate is adjusted to the normal rate. The term of a loan is not more than 30 years; when added with the age of the loaner, not more than 65 years.
3. As for loans for purchasing furniture, building decoration and garden, the bank is to provide a loan of this type of not more than 50% of the buy and sell price or of the contract value and not more than 30% of the loans for purchasing a piece of land with/without building. The loan ledger is to be separated from the building/land loan ledger and requires a personal guarantee. The term of a loan is not more than 7 years with equal monthly amortization.
4. With respect to loans for hire purchasing buildings and land and/or condominiums by low income or unspecified income customers with no credit under the banking system, a loaner must transfer his/her housing ownership to the bank and sign a hire purchase contract. The bank is to provide loans only for building and land under the housing projects of the National Housing Authority or under the private projects, under which developers contractually agree to buy back any housing that a debtor refuses to pay installments for and the bank has revoked the hire purchase contract. After a lender has steadily paid his/her installments for 2 years and there is no further installment due, the bank will transfer ownership back to the lender and the lender will enter into contract with the bank in accordance with item No.1 and No. 2. The transfer of ownership to a loaner with no income nor profit is not taxable.
5. With respect to loans for the mortgage insurance fee, the bank is to provide such loans not exceeding 5 % of the mortgage loans for buildings, land or condominiums, and when adding to the mortgage loans for buildings, land or condominiums, the amount of the two types of loans will not exceed 100% of the appraised value thereof.
6. As for loans for repairing buildings or condominiums or building extension, the bank is to provide such loans not exceeding 80% of the appraised value for the repair or extension works through the additional loan contract . A new installment should be made as well as an increase in the collateral amount of mortgage ceiling.
7. As for loans for erecting buildings on the loaner's land, the bank is to provide loans at a rate of 100 % of the appraised value of the building or of the contractual cost, whichever is less. The term of a loan is not more than 30 years; when added with the age of the loaner, not more than 65 years.
8. As for loans for repairing or improving the utility system and the surrounding areas of a housing project, and if such utility system is not public, the bank is to provide loans not exceeding 80% of the appraised value or of the contractual cost, whichever is less. The loaners under such housing project must jointly borrow the money and enter into contract for additional loan, applying new installment and increasing in the collateral amount of the mortgage ceiling proportionately for each loaner.

### **Types of interest rate charged on individual long term loans**

1. The floating interest rate is an interest rate that can adjust itself to market conditions. Normally, the bank sets its interest rates slightly lower than those of commercial banks. Loaners who sign the loan contracts with the floating interest rate can request to have it changed to the fixed interest rate, if desired. The bank will charge a fee of 1% of the remaining debt balance.
2. A loaner may choose a fixed interest rate for 2 years, for 3 years or for 5 years, after the contractual term of a fixed interest rate is expired, or choose the floating interest rate announced at that time. Pending the expiration of each fixed interest rate term, a loaner cannot change the fixed interest rate into a floating interest rate. If a loaner wishes to redeem a loan, the bank will levy a fine of 2 % per year from the starting date of the last fixed interest rate term until the day of loan redemption.

### **Taking deposits from the general public**

Mobilization of funds from the financial market can be performed through the following means:

1. Fixed deposits for 3 months, 6 months, 1 year and 2 years, at a competitive interest rate offered by the bank;
2. Certificate of deposits and promissory notes from persons and juristic persons for the period of 1 month up to 3 months, at an interest rate slightly higher than that of the savings deposits offered by commercial banks;
3. Savings deposits under the savings and loan contract at the same interest rate from the bank as savings account deposits offered by commercial banks. If the savings deposits have been steady every month for 1 year, the bank will retrospectively adjust the interest rate from that of the savings deposits to that of a fixed deposit for the period of 1 year upon the day of completion;
4. Call loans from commercial banks.

### **Mobilizing fund from the fund market**

The bank will mobilize funds from the fund market by:

1. issuing bonds guaranteed by the Government and selling them to commercial banks to be used as money reserves as well as selling them to various funds that need to be invested in securities with low risk. The bank can mobilize funds by long term borrowing from domestic and foreign sources guaranteed by the Ministry of Finance. The bank can mobilize funds by issuing bonds and long term borrowing guaranteed by the Ministry of Finance for the amount of as high as 12 times of its capital fund, which is equal to half of the loan balance due (according to the standard of B.I.S. Ratio, a bank must have a capital fund not less than 8% of the loans due; and for the housing loan, a mere capital fund of 4% is required).
2. issuing transferable and high liquidity mortgage bonds a the maturity of 10 years not guaranteed the by Ministry of Finance. All branches of the bank maintain bond buy/sale secondary markets and safe keeping centers. The interest rate thereof is equal to that of a 3 month deposit offered by big commercial banks plus 0.25% per year. Payment of interest and adjustment of new interest rates will be performed at every 3 months. Purchase of the bonds occurs when an investor of the bonds offers to sell his/her bonds at any branch of the bank, at which time the bank will place the offer on-line in searching for a new investor from all over the country. The money will be transferred into the former investors' account within 7 days. Mortgage bonds are liquid assets in tier 1 and considered low risk security.

### **Risk Management**

The bank can, therefore, perform risk management on liquidity because it mobilizes funds from both the financial and fund markets. The bank does not risk on interest rates and funding mismatching because it provides loans with floating interest rates corresponding to the deposits that offer fluctuating interest rates in accordance with market conditions and provides loans with fixed interest rates corresponding to the issuance of bonds with the maturity of 2 years, 3 years and 5 years. Once the bonds become mature, the bank will roll over the bonds in response to the loaners' demand both in terms of the amount of money and the interest rate. Furthermore, the bank issues transferable mortgage bonds with a maturity of 10 years, a main source of funding for long term funds as corresponds with long term loans. As it has been mentioned above, the bank runs its business as the normal deposit-taking system, by selling credits or issuing mortgage back security to be sold in the secondary market as in the secondary market system of the United States. It runs a contractual system like those of Germany and Austria; and issues bonds to mobilize funds from the funds market like the Mortgage Back System of the Scandinavian countries. Therefore, the bank system is an effective system, with low administrative cost yielding higher profit since there is no profit sharing.

### **Debt Collection and NPLs Reduction**

1. There should be improvement in the credit analysis criteria by having less attention paid to the appraised collateral price due to the fact that the an appraised collateral price, upon enforcement of mortgage, becomes the forced sell price which is lower than the appraised value when the bank approved the loan. Attention should be paid to credit analysis by building a model finance balance sheet to study the capacity of debt repayment.
2. Land development project applied for by individual long-term loans in terms of sale, occupancy and buy-sell price must be examined by steady visits.
3. Housing loans will be repaid with installments deducted from regular income. The bank should steadily follow up debt repayment and should not allow long overdue payment since such loaner is not able to repay an accumulated debt.
4. Debt collection and its pertaining legal work should be outsourced so that the work can be carried out effectively,
5. A handbook on debt settlement should be published for a loaner facing financial difficulties to find ways and means to settle the debt.
6. As for certain debtors who are no longer able to repay the debt and when the mortgage enforcement procedure takes years to complete, the bank has to write off bad loans and thereby more loss will be incurred to the bank. In this connection, the bank should accept the transfer of assets for debt repayment immediately but the debt balance due must not exceed 80% of the appraised value of the collateral. Such loaners are entitled to buy back their assets within 3 years at the price equal to the debt balance due plus a normal interest rate charged from the date of the asset transfer until the date of the asset buy back. Pending the buy back loaners can stay in their houses provided that loaners have to pay rental fees lower than those of the normal rate so that the bank does not pay for housing maintenance and repair costs.
7. As for debtors who refuse to settle their debts or offset their assets to repay some part of the overdue debts for more than 6 installments, the bank shall sell their debts unclassified to the Secondary Mortgage Corporation at the rate of 50:50 . NPLs will be sold at a discount rate whereas normal debts will be sold at full prices. (The Secondary

Mortgage Corporation will immediately resell NPLs to the Debt Management Company and normal debts will be transformed into securities and sold in the secondary market).

8. As for debtors whose debts are left over from the parts sold to the Secondary Mortgage Corporation, and for debtors who have settled their debts and their debts become NPLs, the bank shall request an external law firm to speedily enforce the mortgages thereof.
9. An asset market program must be arranged whereby the bank buys assets from the legal execution of debts and debtors having financial difficulties. The bank will provide loans for new buyers.

### **Liquidity Management**

1. Interest rates for deposits are offered corresponding to the conditions of the market to induce an adequate amount of deposits and costs. New types of deposits should be initiated, especially long term deposits, in order to lower the cost for interest rates offered; and the interest rates charged for loans should be lower than those of commercial banks so as to make the bank loans competitive.
2. The capital management department sets appropriate fund transfer rates (in) by determining profit rates of deposits in the profit center system in line with the deposit mobilization policy so that the branches having more deposits than loans offered slow down or speed up the mobilization. At the same time fund transfer rates (out) are set for the branches offering more loans than deposits being taken, these branches can offer various types of loans properly, as well as cover the expenses and gain some profit after calculating for minimum debt loss.
3. The bank must manage liquidity by investing in low and medium risk instruments as well as provide call loans to commercial banks and invest in the buy back market for government bonds.

## **EXPERIENCE**

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### **Current Position**

- Executive Adviser on Organization Development / Government Housing Bank
- Chairman of Executive Committee/ Small Industry Credit Guarantee Corporation
- Chairman of Advisory Committee / Housing Finance Association
- Committee / The Valuers Association of Thailand
- Committee and Management Committee / Secondary Mortgage Corporation
- Committee and Management Committee / Thai Credit Bureau Co., Ltd.

1997 - 2000 President Government Housing Bank  
1994 - 1997 Senior Executive Vice President Government Housing Bank  
1990 - 1994 Executive Vice President Government Housing Bank  
1983 - 1990 Chief Project Loan Development Department Government Housing Bank  
1982 - 1983 Assistant Chief Project Loan Department Government Housing Bank  
1982 - 1982 Chief Credit Department 2 : Credit Center Government Housing Bank  
1976 - 1981 Credit Officer / Credit Department Krung Thai Bank

## **TRAINING AND SEMINAR**

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- Mar.1984, "Housing Finance Problem for Low Income"India
- Nov.1987, "The 25<sup>th</sup> Fuji Bank Seminar : Finance Revolution in Full Swing" Japan
- "Housing Finance Program" University of Pennsylvania, USA.
- Mar.1992, "New Town Project Australia and New Zealand
- "The 5<sup>th</sup> Seminar : World Valuation Congress" Australia
- Oct.1999, "IUHF World Congress" Brazil
- June 2001,Speaker Addressing" Housing Loan System" Vietnam

## **EDUCATION**

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- B.A., Economics University of the Thai Chamber of Commerce
- M.A., Economics Middle Tennessee State University, USA.
- Diploma National Defense College

## **PAST POSITION**

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- Committee of the Emergency project to assist poor people in an urban area ; authorized by the Minister of Interior
- Committee of the Programme to study and develop the secondary mortgage market and securitization; authorized by the Finance Minister

- Chief of the working group in studying the readiness of mortgage market to develop secondary mortgage market in Thailand
- Specific Committee for the programme under real estate banking
- Committee of The Resolution for the Real Estate Problems under the Economic Hardship
- Chairman of the Subcommittee of selling the real estate owned by the Financial Restructuring Authority (FRA)
- Committee of the examining of financial system, budgeting and asset of The King Rama the 7<sup>th</sup> Institution
- Chairman of The Rotary Club of Bangkok – Ratchadapisek
- Committee of The Institute of Thai Environment
- Management Committee of The Land Institute Foundation
- Committee and Audit Committee of The National Housing Authority

## **AWARDS**

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- Honored the prestige award “Cheewit Tid Dao” from the Weekly Newspaper Association : The Best Banker in 1998
- Awarded “Sud Yod Kon Haeng Pee 1998 : Banking Field“ from The Hero Magazine