

# **PRO-POOR HOUSING FINANCE**

## **Thailand Country Report**



**United Nations Economic and Social Commission for Asia  
and the Pacific**  
and  
**National Housing Bank of India**

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## Contents

|   | Page |
|---|------|
| 1. BRIEF DESCRIPTION OF THE COUNTRY   | 1    |
| 1.1 Physical, Demographic, and Socio-Economic Profile                           | 1    |
| 1.2 Political and Administrative Structure                                      | 6    |
| 1.3 Financial Sector  | 6    |
| 1.4 National Development Policies   | 9    |
| SECTION 2 : HOUSING CONDITIONS AND HOUSING POLICIES                             |      |
| 2.1 Housing Conditions  | 10   |
| 2.2 Stakeholders in Housing   | 11   |
| 2.3 Housing Policies – Government and Civil Society                             | 13   |
| SECTION 3: HOUSING FINANCE SYSTEM   |      |
| 3.1. History and Evolution of the Housing Finance Systems                       | 14   |
| 3.2 Contribution of Housing and Housing Finance to the Economy                  | 17   |
| 3.3 Structure and Functions of Housing Finance Institutions                     | 18   |
| 3.4 Legal Provisions & Regulations Relating to Housing Finance                  | 23   |
| 3.5 Terms and Conditions of Lending for Housing                                 | 27   |
| SECTION 4: PRO-POOR HOUSING PROGRAMS  |      |
| 4.1. Pro-poor Government Programs   | 33   |
| 4.2. Pro-poor Programs of Formal Housing Finance Institutions                   | 37   |
| 4.3. Pro-poor Programs of Co-operatives/Community-based organizations/<br>NGO's | 38   |
| SECTION 5: EXTENDING HOUSING FINANCE  |      |
| 5.1. Potential Housing Finance Market   | 39   |
| 5.2. Expanding Housing Finance of the Formal Sector                             | 40   |

## SECTION 6: CONCLUSIONS AND RECOMMENDATIONS

|   |    |
|---|----|
| 6.1 Key Conclusions                     | 41 |
| 6.2 Outline future needs                | 42 |
| 6.3 Future opportunities and challenges | 46 |
| 6.4 Future action                       | 47 |

## APPENDICES

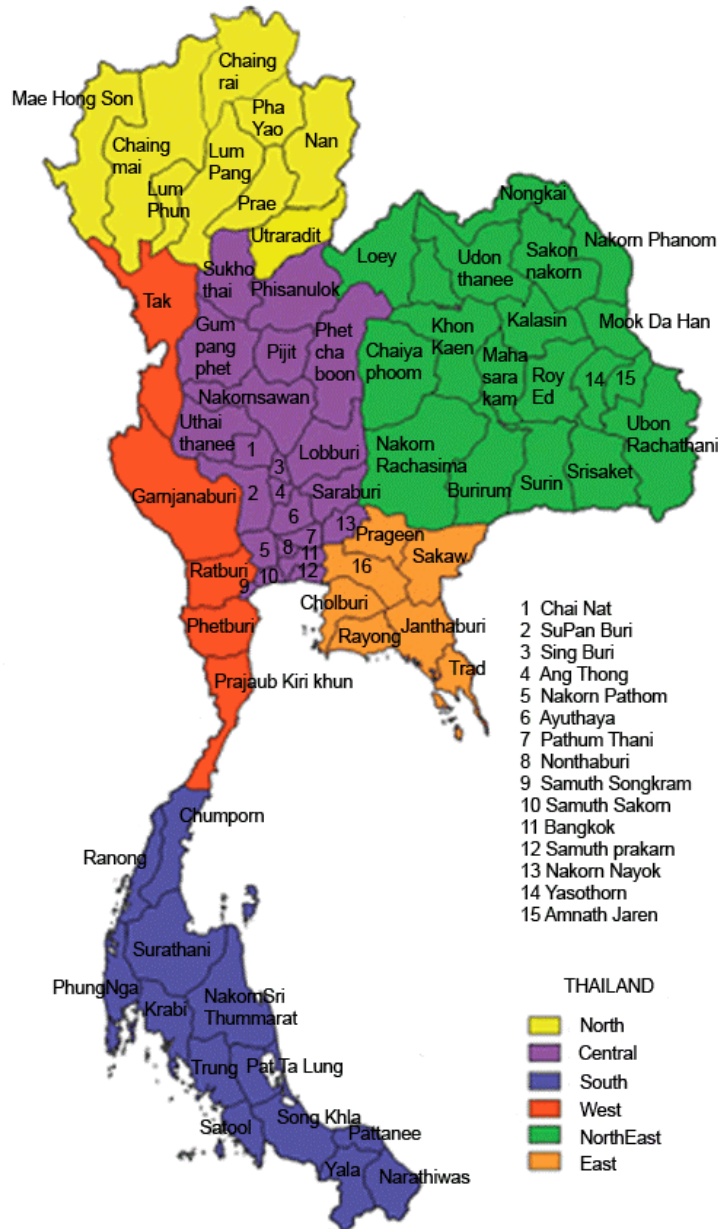
|  |    |
|--|----|
| 1. A: Commercial Banks in Thailand               | 48 |
| B: Retail Banks in Thailand                      | 50 |
| 2. Specialized Financial Institutions            | 51 |
| 3. Key Institutions, Regulators and Related Laws | 52 |

# SECTION 1: BRIEF DESCRIPTION OF THE COUNTRY

## 1.1. Physical, Demographic, and Socio-Economic Profile

### Physical

The Kingdom of Thailand covers 513,115 square kilometers with borders touching Malaysia, Burma, Laos, and Cambodia. Its seacoast extends from the Cambodian border in the east to the Malaysian border in the south and along the Andaman Sea in the west. Its 63 million people (18 million households) occupy about 20 million dwellings in four major regions. The people in each region share the predominant culture of the Central Region but have some cultural distinctiveness as well in customs, language, and traditions. Most Thais are Buddhists. Muslims make up about 5% of the population. Other religions are less than 1%.



## Demographic Profile

Thailand's overall population is primarily still very young. More than 50 per cent of the population is under 32 years old. We expect housing demand will continue rising as this group approaches the home-buying age and as GDP continues increasing.

### Thailand Population Structure 1984-2019

| Population Structure   | Year   |        |        |        |        |
|------------------------|--------|--------|--------|--------|--------|
|                        | 1984   | 2004   | 2005   | 2006   | 2019_f |
| Population (thousand)  | 50,637 | 60,550 | 60,991 | 61,396 | 70,213 |
| Childhood (0-14 years) | 36.9%  | 22.1%  | 21.7%  | 21.4%  | 20.0%  |
| Adults (15-59 years)   | 57.4%  | 67.7%  | 67.9%  | 68.0%  | 65.3 % |
| Elderly (60 years up)  | 5.7%   | 10.2%  | 10.4%  | 10.6%  | 14.7%  |
| Total                  | 100.0% | 100.0% | 100.0% | 100.0% | 100.0% |

Source: National Statistical Office, Thailand

However, population growth is currently less than 0.5% per year.<sup>1</sup> The country has successfully completed the demographic transition from high birth-rates and high death-rates to low birth-rates and low death-rates. Housing demand will nevertheless continue increasing as more people migrate to the cities.

Many government leaders and officials, businesses, and citizens do not fully understand the transition's implications, including future labor shortages. Labor shortages, particularly for skilled-labor are already appearing in many key industries, as Thailand transitions to a modern economy less influenced by agriculture. Agriculture currently constitutes about 8.5% of GDP and a significant portion of the country's exports that make up 33% of GDP.

## Urban & Rural

More than 36 per cent of Thais live in urban areas. Urbanization is not a recent phenomenon in Thailand. Urban and rural areas have been major social, economic, and geographic aspects dating back at least, to the Ayuthaya Period (prior to 1765)<sup>2</sup>. Ayuthaya was one of the greatest and wealthiest cities in Asia, a thriving seaport envied not only by the Burmese but by the Europeans who were in great awe of the city. It has been said that London, at the time, was a mere village in comparison.

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<sup>1</sup> This estimate comes from extrapolating National Statistical Office data.

<sup>2</sup> In 1690 Londoner Engelbert Campfer proclaimed 'Among the Asian nations, the Kingdom of Siam is the greatest. The magnificence of the Ayuthaya Court is incomparable'.

Modern infrastructure expansion including highways connecting provincial urban centers to Bangkok and other seaports as well as communication system improvements have largely impacted the growth of local urban centers away from Bangkok, which is the country's major urban center.

Population increases in most large cities has been due to migration rather than household formation. The Central Region where Bangkok located has received most of the expansion.

## **Urbanization levels**

Urbanization in Thailand is increasing particularly because of industrialization. Thailand has developed large industrial estates many of which are in the Central Region that require hundreds of thousands of laborers.

The largest urban population increases are in southern Thailand. Northeast Thailand has now surpassed the North which is now the lowest-income region.

Not all urban areas are increasing in population. Chiang Mai and the North are expected to experience population decreases between 2007 and 2012. However, migration to urban areas will continue increasing housing demand.

## **Largest cities**

The largest cities in descending order of population are:

- |   |                                      |
|---|--------------------------------------|
| - Bangkok Metropolitan Area (5.7 million) | - Nakorn Rachashima (2.6 million )   |
| - Ubon Rachatani (1.8 million)            | - Khon Kaen (1.8 million)            |
| - Chiang Mai (1.7 million)                | - Buriram (1.5 million)              |
| - Udonrthani (1.5 million)                | - Nakorn Sri Thammarat (1.5 million) |
| - Sisaket (1.5 million)                   | - Surin (1.4 million)                |

Please note that out of this list of top ten cities, seven are located in the Northeastern Region which suggests this region is no longer as poor as it has been traditionally considered.<sup>3</sup>

## **GDP**

Thailand GDP for 2008 is estimated to be \$270 billion USD and grew at about 2.6 %. GDP per capita is estimated to be \$ 4,072 Exports are \$ 175.3 billion USD or 64 Percent of GDP.<sup>4</sup>

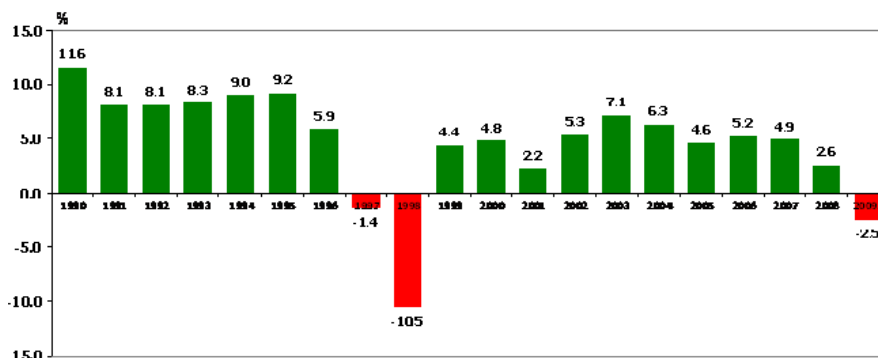
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<sup>3</sup> [http://service.nso.go.th/nso/data/ToptenHTML/people\\_high.htm](http://service.nso.go.th/nso/data/ToptenHTML/people_high.htm)

<sup>4</sup> [http://www.fpo.go.th/pdf/forecast\\_Eng\\_March08\\_pres.pdf](http://www.fpo.go.th/pdf/forecast_Eng_March08_pres.pdf)

The Fiscal Policy Office, Ministry of Finance projects that the Thai economy will contract at -2.5 per cent per year in 2009 due in large part to the severe contraction of major trading partners' economies.<sup>5</sup>

### Growth Rates of Thailand GDP (Constant price)



Source : IMF, Bank of Thailand

### Inflation rates

The Bank of Thailand calculates two official inflation rates; one that excludes petroleum and food costs, and another that includes petroleum and food. The non-petroleum and non-food inflation rate for 2008 was 2.4 %. While the rate including petroleum and food is 5.5 %. Its monetary policies aim at controlling the non-petroleum and food index.<sup>6</sup>

Headline inflation in 2009 is projected to decline to 0.7 per cent per year following significant oil price decreases compared to 2008.<sup>7</sup> Core inflation which excludes energy and food prices is projected to fall to 1.2 per cent in 2009.

### Unemployment

The unemployment rate for 2008 was 1.4 % of total work force.<sup>8</sup> As the global economy begins affecting the Thai economy, the unemployment is expected to rise to 3.8 per cent of the labor force in 2009.<sup>9</sup>

<sup>5</sup> Fiscal Policy Office, Ministry of Finance, March 25, 2009

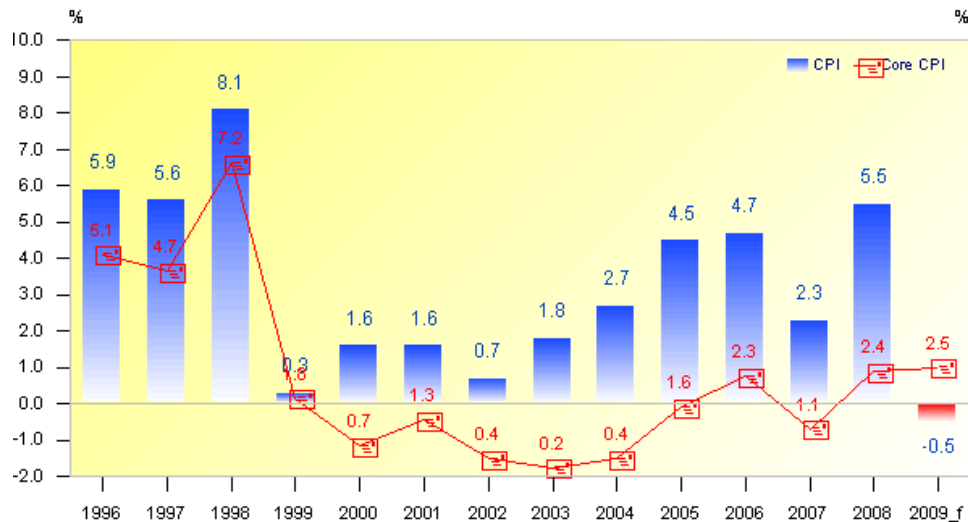
<sup>6</sup> <http://www.bot.or.th/English/Pages/BOTDefault.aspx>

<sup>7</sup> Fiscal Policy Office, Ministry of Finance, March 25, 2009

<sup>8</sup>Source : National Statistical Office of Thailand

<sup>9</sup> Fiscal Policy Office, March 25, 2009

## Headline and Core Inflation in Thailand (1996-2009\_F)



Source : Bureau of Trade and Economic Indices, Ministry of Commerce, Thailand

### Urban/rural population and poverty line

Thailand does not have a Standard Poverty Line. We have used National Statistics Office Social and Economic Survey data to empirically determine income levels where people can experience financial and shelter problems.

Income distributions, shelter payments, savings, and household net assets are used to develop a household financial index. This index is more useful than the poverty line because it delineates households that require financial assistance and shows the extent financial problems increase when monthly incomes decrease.

This data is for all regions (four regions plus details for BMA and Bangkok Metropolitan Region).<sup>10</sup> In general, households with incomes of 6,000 Baht to 7,500 Baht or less per month usually experience financial problems. Since most of the distributions become negative at this monthly household income range, the data provides a household financial index.

This index calculates Thailand's "poverty line" at about 6,000 Baht (\$US171) per household per month (Bt1, 443 (\$US41) per person per month (depending upon geographical area). About 5.4 million people (8.5%) live below the poverty line.

A threshold concept such as the poverty line is technically an anti-poor concept.<sup>11</sup> Such standards make it difficult for the poor to progress out of poverty because of the threshold and labeling effects of threshold indices.

About 480,000 households live in 1,726 slums throughout the country (estimated 2.4 million people).<sup>12</sup>

<sup>10</sup> The Bangkok Metropolitan Region includes the Bangkok Metropolitan Area and its fringe consisting of 5 provinces that surround the Metropolis.

<sup>11</sup> In the US, this concept is used to quantify the assistance needed; however, it does exactly the opposite and provides a barrier to those poor who wish to get out of poverty. Reasons for being poor have nothing to do with poverty lines and cannot even be used to estimate housing demand because many poor wish to rent.

Thailand's Gini Coefficient is 43 for households and 51 for the population. Household savings are about 20 per cent of disposable income and 33 per cent of GDP.

## **1.2 Political and Administrative Structure**

Thailand is a constitutional monarchy headed by His Majesty, King Bhumiphol Adulyadej; the world's longest serving Monarch.

Thailand's national government consists of an elected two-chamber parliament with a Senate (upper house) and parliament (lower house). The Government is headed by a Prime Minister and a Cabinet. Parliament and Senate members are partly elected by national elections.

Provincial governments are an extension of the central government and budgets and governors are selected and approved by the central government. Government structures and political structures are mostly top-down.

## **1.3 Financial Sector<sup>13</sup>**

Thailand has learned much since 1997 when the country was largely blamed for igniting the Asia financial crisis because of an inadequate regulatory infrastructure that led to a bubble economy that ultimately exploded. The country was forced to seek bitter medicine from the International Monetary Fund (IMF) when its reserves almost disappeared.

Since then, Thailand has fully repaid its IMF loans and has built its foreign reserves to more than \$US100 billion as of December 31, 2008.

The Stock Exchange of Thailand has a total market capitalization of Bt3.9 trillion (\$US111 billion) as of April, 2009.

### **Major banking and non-banking institutions**

Thailand has a wide-range of financial institutions that serve different market sectors.

The 1997 financial crisis and its effect on financial institutions resulted in a complete over-haul of Thailand's regulatory framework, that primarily involved consolidating financial institutions into fewer and more well-capitalized organizations.

Thailand currently has 17 Thai incorporated commercial banks that are regulated by the Bank of Thailand. All of the commercial banks are primarily privately owned except Krungthai Bank which is a majority government-owned commercial Bank. (see Appendix 1). In addition, foreign commercial banks operate with limited licenses. As of March 30, 2009, commercial banks in Thailand had deposits of Bt7.248 trillion (\$US 212 billion).

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<sup>12</sup> NHA Survey

<sup>13</sup> Data comes from the Bank of Thailand

To serve special needs, Thailand also has eight government-owned Specialized Financial Institutions (SFIs). These include the Government Housing Bank, Government Savings Bank, SME Development Bank, Bank of Agriculture and Agricultural Cooperatives and the Islamic Bank of Thailand.

SFI shares are owned by the Ministry of Finance and their operations are regulated by the Bank of Thailand. (see Appendix 2)

Thailand also has numerous finance and leasing companies that provide special requirements such as credit cards, automobile financing, factoring and various types of consumer finance lenders including pawn shops.

Thailand's capital markets have been developing robustly for more than two decades. Companies routinely raise equity through the Stock Exchange of Thailand (SET) and its secondary market the Market for Alternative Investments (mai)

During the past decade, Thailand's bond market has also developed robustly. The Government and many SET-listed companies routinely raise funds by issuing short and long-term bonds. Promissory notes (PNs) are also issued to raise short-term funds.

Foreign direct investments have been contributors to the Thai economy during the past several decades. Major Japanese companies have helped Thailand develop its automobile and electronic industries.

### **Net Flow of Foreign Direct Investment Classified by Sector**

**(Unit: Millions of US Dollars)**

**Last Updated: 30 Apr 2009**

|                                    | Feb 2009p | Jan 2009p | Dec2008p | Nov2008p | Oct2008p | Sep2008p |
|------------------------------------|-----------|-----------|----------|----------|----------|----------|
| 1. Industry                        | 319.48    | 353.11    | 292.23   | 245.11   | 410.97   | 272.47   |
| 2. Food & Sugar                    | 16.81     | 9.37      | 11.18    | 10.88    | 31.28    | 24.45    |
| 3. Textiles                        | 9.81      | 8.32      | 12.77    | 3.37     | 7.43     | 6.19     |
| 4. Metal & non metallic            | 17.23     | 40.70     | 20.93    | 27.17    | 89.53    | (18.63)  |
| 5. Electrical appliances           | 30.65     | 46.76     | 30.91    | 10.84    | 9.80     | 4.34     |
| 6. Machinery & Transport equipment | 142.72    | 77.56     | 169.72   | 97.91    | 85.94    | 152.95   |
| 7. Chemicals                       | 15.11     | 50.49     | (11.42)  | 8.05     | 39.73    | 7.58     |
| 8. Petroleum products              | 45.65     | 45.85     | 32.87    | 45.65    | 45.65    | 45.65    |
| 9. Construction materials          | 2.16      | 2.76      | 1.82     | 1.85     | 1.82     | (1.14)   |
| 10. Others                         | 39.30     | 71.27     | 23.41    | 39.34    | 99.75    | 51.06    |
| 11. Financial Institutions         | 129.39    | 131.22    | 146.93   | 86.55    | 144.62   | 108.81   |

|                        | Feb 2009p | Jan 2009p | Dec2008p | Nov2008p | Oct2008p | Sep2008p |
|------------------------|-----------|-----------|----------|----------|----------|----------|
| 12. Trade              | 13.11     | (32.61)   | 464.27   | 45.93    | 97.97    | 52.80    |
| 13. Construction       | 3.70      | (9.35)    | 5.05     | (3.41)   | 6.04     | 7.00     |
| 14. Mining & quarrying | 81.14     | 87.96     | 6.54     | 131.81   | 82.79    | 135.46   |
| 15. Agriculture        | 0.09      | 0.09      | 0.39     | 2.94     | 6.57     | 3.54     |
| 16. Services           | 7.79      | 33.02     | 77.19    | 99.89    | (60.30)  | 329.35   |
| 17. Investment         | 14.53     | (93.24)   | (357.09) | 1.22     | (116.58) | 0.25     |
| 18. Real estate        | 61.47     | 64.43     | 177.04   | 33.32    | 84.89    | 114.57   |
| 19. Others             | 50.64     | 73.77     | 50.83    | 26.58    | 33.27    | 26.86    |
| 20. Total              | 681.39    | 608.41    | 863.42   | 669.97   | 690.27   | 1,051.15 |

Sources: Bank of Thailand

Remark: 1/ Investments in non-bank sector only

2/ Direct Investment: Equity Investment plus loans from related companies. Since 2001, 'Reinvested earnings' have been incorporated into direct investment

The Bank of Thailand uses three types of financial instruments to set interest rates:

1. Legal reserve requirements 2. Open market operations, 3. Standing facilities or short-term collateralized lending to financial institutions at a set interest rate.

## **Regulatory structure of financial markets**

The financial markets in Thailand are governed by the Ministry of Finance which is responsible for policy making and issuing related laws and regulations. The Bank of Thailand meanwhile maintain financial markets order, regulates and supervises all types of financial institutions including commercial banks, finance companies and credit fonciers. Commercial banks which engage in capital market activities such as bond underwriting are also subject to rules and regulations set by the Securities Exchange Commission (SEC) under the SEC Act.

## **Overview of Co-operatives, Community-based organizations and NGO's**

Cooperatives play an important role in micro-financing in Thailand particularly among middle to low income people in different business sectors. Currently, cooperatives in Thailand are officially categorized into seven types: agricultural, land settlement, fisheries, consumer, thrift and credit, service and credit union cooperatives. More than 10 million people (about 15 per cent of the population) are members of more than 6,000 cooperatives.

The history of agricultural cooperatives can be traced back to 1914, when the Thai economy opened to international trade during the reign of King Rama V. In 1966, the “Bank for Agriculture and Agricultural Cooperatives (BAAC) was established as an state enterprise to be a financial center for agricultural cooperatives as well as individual farmers.

Cooperatives in Thailand are governed under the Cooperative Act BE 2542 (1999) an amendment to the prior acts after consultation between government and non-government institutions.<sup>14</sup>

The Department of Community Development (DCD) manages a community cooperative fund. To obtain loans, borrowers must be members with savings accounts with monthly deposits for six months. They submit income generating projects for loan approvals. Interest rate is usually about 24 per cent per annum.

Low income communities in rural and urban areas are also encouraged to set up their own community-based organizations. The Community Organizations Development Institute (CODI), a governmental body set up in 2000, is mandated to empower and strengthen community organizations which would help low income people to become stronger and self-reliant. As of the end of 2008, there were as many as 64,952 organizations which were endorsed by CODI involving over 16 million members and about Bt.15.8 billion worth of savings.

Government Pawn Shops charge about 24% per year, 2% per month. These shops are organizations supervised by the government.

Informal group lending among trusted friends was also a common way for individuals to borrow money for investment. This lending method was very popular, but the practice was outlawed when a large lending pool collapsed.

Thailand also has an informal loan market that provides short-term loans at very high rates. Some of the borrowers pay annual interest rates in excess of 10 per cent per week.

These loans are primarily made to low income people. Several slum studies suggest that dwellers use such funds to purchase clothes for school and/or other educational expenses, immediate health needs, and short term business capital.

During the past several years, the government has instituted special programs to consolidate these type of loans through the SFIs.

## **1.4. National Development Policies**

The National Economic and Social Development Board (NESDB) is responsible for drafting national economic and social development plans. The first five-year began in 1967. The main goal of the present development plan, 10th National Economic and Social Development Plan which runs through 2012 is sustainability.

The 10th Plan will also continue developing a Green and Happiness Index (GHI). The index measures health, family warmth and love, community empowerment, economic

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<sup>14</sup> Thuvachote, Suwanna, 2007 “Agricultural Cooperatives in Thailand: Innovations and opportunities in the 21<sup>st</sup> Century”

strength and equality, environment and ecological development, democratic values and good governance development.

## **SECTION 2: HOUSING CONDITIONS AND HOUSING POLICIES**

### **2.1. Housing Conditions**

#### **Physical conditions**

The typical Thai dwelling is a detached dwelling made of permanent materials supplied with tap water, electricity, and sewage disposal on dweller owned land.<sup>15</sup>

Eighty percent of Thai households own their own dwellings. About two percent live in mortgaged homes and 11 percent rent. Five per cent of households live in rent-free accommodations while one per cent pay in-kind for their rental housing.

In most cases, Thais live in detached dwellings (80%). Other types of dwellings include townhouses, apartments and flats, condominiums and row houses.

Ninety-four per cent of dwellings are made of permanent materials; cement or brick 28%, wood and cement or brick 20%, and other hybrid permanent materials 48%.

Basic infrastructure is available to more than 95% of households in Thailand. Electricity, water, roads, and septic tanks are widely available in Thailand. The Rural Electricity Authority provides households with solar electricity until their utilities are constructed.

During the past 10 years or so, most rural districts have been provided potable tap water from wells or other sources. The Thai military and police construction crews provide roadways in remote areas, many of them rolled laterite or asphalt. Concrete materials especially designed for septic tanks are also available nationwide. A toilet can be built for about \$US 20. Local districts often require a proper toilet for house registrations.

Most households (47%) obtain piped-water from taps. Other households use wells (44%) or rainwater (2%). A small number of households (5%) use other sources like lakes, streams, and waterfalls.

Ninety-seven percent of households have flush-toilets, squat- toilets or flushing squat-toilets.

Water, electricity, and sewage (septic tanks) are installed and used in more than 95% of households.

Cooking is usually done with gas (57%), or charcoal and wood (33%). Most households (91%) have televisions and 74% of households have refrigerators while 91% have fans. Sixteen per cent of households have some type of agricultural equipment.

Average household size is 3.5 persons and the average room per household is 2.8 rooms per household.<sup>16</sup>

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<sup>15</sup> Data in this section are from the National Statistical Office's 2000 Census.

Minimum construction standards are required for building permits. However enforcement is often limited.

The Bangkok Metropolitan Administration is struggling with these issues and has enacted strict laws. However, citizens still build, expand, and renovate dwellings without permits. Some grandfathering has been allowed.

Housing stock is difficult to estimate in Thailand. However, because there is no significant housing backlog and very few street people, we believe the housing stock should equal the number of households (18 million dwellings). The National Housing Authority is currently undertaking nationwide satellite surveys which should yield a more accurate estimate of housing stock in Thailand.

## 2.2 Stakeholders in Housing

Everyone in Thailand is a land and housing stakeholder. Government organizations and agencies own substantial amounts of land and buildings. The Royal Forestry Department (RFD) controls about 230,370 square kilometers of the land in Thailand, about 45% of all land in Thailand.<sup>17</sup> The remaining land is held by individuals and organizations with land titles or some type of land agreement. The RFD allows portions of its land to be used for farming.

|                         | Type of Involvement                 | Extent of Involvement |               |
|-------------------------|-------------------------------------|-----------------------|---------------|
|                         |                                     | Land                  | Real Estate   |
| Key Actors              |                                     | Land                  | Real Estate   |
| Government Agencies     | Users and Developers                | High                  | Not in Market |
| Forestry Department     | Controller                          | High                  | Low           |
| Military                | User and Developer                  | High                  | Not in Market |
| Non-Profit Institutions | Mostly Users                        | Low                   | Low           |
| For Profit Businesses   |                                     |                       |               |
| Developers              | Developer                           | High                  | High          |
| Builders                | Supervised by Owners                | Moderate              | Moderate      |
| Construction            | Supervised by Owners or Developer s | High                  | High          |

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<sup>16</sup> NSO, Table 5 Selected Characteristics of Households – need to find Whole Kingdom – NA web

<sup>17</sup> There is a discrepancy here of about 100,000 km sq.

|                       | Type of Involvement  | Extent of Involvement |          |
|-----------------------|----------------------|-----------------------|----------|
|                       |                      |                       |          |
| SME's <sup>18</sup>   | Primarily Users      | Low                   | Low      |
| Petty Contractors     | Supervised by Owners | Low                   | Low      |
| Farmers               | Mostly Users         | Low                   | Very Low |
| Homeowners            | Users and Developers | Moderate              | Moderate |
| Renters               | Users                | Minimal               | Minimal  |
| Single Persons/Others | Users                | Minimal               | Minimal  |

The Ministry of Social Development and Human Security oversees the National Housing Authority (NHA) and Community Organizations Development Institute.

In Thailand, overall housing policies are determined by each individual government and subject to constant change. Each government develops and implements policies toward housing, including land procurement, coordinating infrastructure, subdivision approvals, building codes, environmental impact permits, city building as well registering deeds at the Land Department.

NHA is permitted lower design standards (but not lower construction standards) so that it can construct and deliver lower cost lower-income housing.

The government currently does not collect property taxes. However, when land or dwellings are sold, a 3% tax is assessed on the sales price, if the land or dwelling has been owned for more than 10 years or more as well as a 0.02% title transfer fee.

In 2009, the government provided a one-time Bt 300,000 tax deduction for individuals purchasing homes.

Private developers are significant housing providers in Thailand. They provide homes at all price-points beginning with low-income housing up to multi-million dollar high-end houses.

Much of NHA's housing has been subsidized directly or indirectly. Subsidies have varied from 100% for low-priced rentals for urban apartment projects, moderate subsidies for slum improvement programs to 18% for Baan Eua Arthorn subdivisions.

Previously, NHA utilized cross-subsidies between lower-income and commercial projects to facilitate the delivery of lower-priced housing residential units.

NHA and, more recently, CODI have targeted the urban poor including those outside Bangkok. Present NHA plans also include rural housing for the poor, at least in terms of supporting research and demonstration projects in rural housing.

The NHA's Community Development Program (slum improvement) which began in 1976 has assisted more than 800,000 persons. The actual assistance varied depending upon the needs of the community and its residents. Other NHA programs targeting urban poor include low-income apartments, re-blocking, and sites and services.

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<sup>18</sup> Small and medium enterprises.

## 2.3 Housing Policies – Government and Civil Society

Thailand does not have a comprehensive national housing policy. However, three main government organizations, Government Housing Bank (GH Bank), National Housing Authority (NHA), and Community Organizations Development Institute (CODI) are responsible for implementing government housing policies and programs for middle and low-income housing.

Government intervention in housing development started after World War II in Thailand. Prior to this time, housing was considered as an individual effort rather than a government responsibility. In 1953, The Royal Thai Government established the GH Bank as housing developer and housing finance institution.

In 1973, the Government created the NHA as a state enterprise under the Ministry of Interior. In 2003, when Government restructured government agencies, NHA came under a newly created ministry: Ministry of Social Development and Human Security. NHA became the principal organization to insure available shelter for all residents of Thailand in particular to assist households with low and middle incomes living in urban areas.

As a state enterprise, NHA operates in a semi-official capacity allowing it to conduct business with greater flexibility than as a government department under a national ministry. As a state enterprise NHA is also expected to be self-supporting. NHA has some advantages operating as a state enterprise, but ultimately it is accountable to a higher level of authority, its Ministry. From its inception, NHA always has had to reconcile these two goals: provide housing for the low-income, while being financially self-sufficient. This has been difficult to achieve.

NHA, charged with solving “the housing problem” (a concept that varied over time) developed many different plans, strategies, programs, solutions, and projects during the past 36 years. Some ideas like eliminating the housing shortage periodically appear as government policy.

The Government of M.R. Kukrit Pramoj declared for the first time in Thai history that eliminating the housing shortage was a primary goal. This government resolved to eliminate the housing shortage by building 120,000 units from 1976-1980. The program required heavy Government subsidies.

In 1975, in consultation with the World Bank NHA reconsidered housing policy alternatives and decided to utilize different approaches, such as, community improvement (slum upgrading), and sites and services projects. At the same time, NHA also utilized a mixed approach by constructing apartments, residential subdivisions, and special projects such as government employee housing.

Community improvement of congested communities formed a significant part of budgets until 1997. In 1997, the activities were transferred to local administrations. More than a million people were served in some way by this comprehensive, nation-wide plan programs for individuals, households, and communities and coordinated existing government services for these areas: a comprehensive approach seldom seen in social and economic programs targeting lower income individuals. This program also initiated a small business loan program in 1976 that was the first micro-financing program ever.

Community Organizations Development Institute (CODI) grew out of the NHA community development program but requires higher community participation and focuses

on household savings rather than business building. In 1992, The Government established the Urban Community Development Organization (UCDO) under the National Housing Authority. At that time, the view was that there was a need to address urban poverty by developing some participatory models of support for low-income groups through community-based savings and credit groups. Housing for low-income individuals could be improved by working with the low-income communities and developing a network of communities.

In 2000, UCDO merged with the Rural Development Fund, to become a new public organization called Community Organizations Development Institute (CODI). CODI continues to support the UCDO program to reduce poverty both in urban and rural areas.

Currently, the NHA continues to be a major housing provider for middle and low income households. The Government of Prime Minister Thaksin Shinawatra in late 2003 launched a “One Million House Program” (2003-2008). Under this program, the Government instructed the NHA to build 600,000 units (Eua Arthorn Program) and CODI to upgrade another 300,000 units in the existing communities (Baan Mankong Program). Another 100,000 units were assigned to Government Savings Bank (GSB) to finance. The objectives of this policy were to stimulate the economy, increase job opportunities, and provide home ownership.

Without a comprehensive national housing policy or unified governmental approach towards housing, problems may continue to persist, especially pertaining to NHA’s role. NHA was under tremendous political pressure especially when Prime Minister Thaksin Shinawatra’s government established the One Million House Program. Under this program the Government assigned NHA to build 600,000 units which required heavy government subsidies. The scope of this program was also beyond the NHA’s organizational capacities and its financial viability is now in question.

In 2007, NHA collaborated with other stakeholders, public and private professionals, interested citizens and with Government of the Netherlands support prepared a roadmap for a National Housing Strategy which was proposed to the Cabinet for approval. The Cabinet approved the National Housing Strategy along with establishing the National Housing Policy Committee as prescribed in the Royal Gazette dated 29 May 2008. One of the major responsibilities of the National Housing Policy Board is to oversee the formulation of long-term national comprehensive housing policy rather than relying on individual government’s policies.

## **SECTION 3: HOUSING FINANCE SYSTEM**

### **3.1. History and Evolution of the Housing Finance Systems <sup>19</sup>**

Housing finance began in Thailand after the Second World War with the Government Housing Bank’s (GH Bank) creation in 1953. However, easily accessible nationwide home mortgages only became available after major reforms in 1984-1985.

Before the Second World War, British and French Banks controlled the Thai financial system. Thai commercial banks began life only after the Second World War. They

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<sup>19</sup> Patpongpijul, Kitti, 2009. Government Housing Bank and Housing Finance in Thailand, *GH Bank Housing Journal*, vol 3, No. 6

concentrated on trade finance. The government wanted also to promote housing and housing finance for middle- and low-income customers.

GH Bank was chartered to accept deposits from the public, but lending was restricted to housing. Establishing a bank as a housing finance institution was a policy issue because the Thai banking system was the main source of funds in the country.

The Bank was also chartered to buy or acquire lands, sub-divide them into land plots and develop its own housing estates for sale to the public. GH Bank became both banker and developer.

However, similar to specialized housing banks in other developing countries, deposit mobilization was difficult. GH Bank could not attract deposits because its banking services could not compete against the commercial bank's larger branch networks. It had only few offices and could not provide the commercial bank's wide-ranging products and services..

The government assisted by guaranteeing the Bank's bond issuances, but the Thai bond market was small and the size of the government's guarantee was also very limited. The government fiscal position was always tight and it usually wanted to sell its own bonds first to finance budget deficits. GH Bank's operations remained very small.

GH Bank financed housing purchases through hire purchase contracts. Unlike normal mortgage lending, home buyers under long-term hire purchase contracts had to pay all monthly installments before the land and house ownership titles were transferred to them.

During this period, most Thai people worked in government services, agriculture and home industries. Only later did the rise in trades and manufacturing result in increasing numbers of salaried workers. However, the demand for housing in Thailand then was still much larger than the tiny Government Housing Bank operation could provide.

The number of houses that were built by the Government Housing Bank were few when compared to the demand in the growing city of Bangkok. None were built up-country.

However these early housing estate developments, with rows of ready-made houses for sale on easy installments terms, were permanently stuck in the public's mind. For the first time, it was possible for people to own a home without having to save all their lives.

Because of their popularity GH Bank's houses were emulated by private developers. As the Thai urban economy grew, many entrepreneurs who saw opportunities began developing private housing projects. Many of these early real-estate developers were big landowners that subdivided land and sold each plot by installment.

GH Bank did not have enough funds to lend to customers of private housing estates. Commercial banks did not extend long-term mortgages either. These early housing developers had to finance the buyers themselves. The people who wanted to buy homes paid the developers by installments for the land and houses.

Only after all the installments were paid would the developers transfer property title deeds to the buyers. This private sector housing and housing finance method continued in Thailand until the 1960s.

The private housing developer business was very profitable. Successful developers were able to borrow money from commercial banks, buy more land and build more housing projects. Commercial banks were willing to lend to property developers by overdraft facilities on land mortgages and renew the facilities each year as long as business was good.

From 1973, GH Bank extended fixed rate mortgage loans for up to 15 years, funded by bond issues with government guarantees. Foreign currency long-term funds were also raised in foreign capital markets, guaranteed by the government. This fixed rate mortgage lending may be viewed as similar to the mortgage bank system in Denmark and Germany.

The GH Bank bonds were purchased by commercial banks because they were guaranteed by the government and can be used by financial institutions as a reserve asset.

Government guarantees were hard to come by. Bonds issued were medium term, but mortgages were long term. Foreign currency loans resulted in exchange losses. Mortgage lending by GH Bank was still very limited. Home buyers had to wait years to gain access to GH Bank mortgage loans.

The risk associated with fixed rate mortgages was unforeseen. It was a problem associated with adopting mortgage finance systems without considering the local financial environment. Advisors and officials did not understand the Thai housing finance system's risks.

Oil crises struck the country in the 1970s and again in the early 1980s. During these crises, interest rates sky-rocketed, and liquidity was short. The real estate industry collapsed.

The Government Housing Bank incurred losses from the higher cost of funds and low fixed-rate mortgages extended earlier. It was practically bankrupt because of non-performing loans to real estate developers. The Bank was saved by government recapitalization, but the Thai housing finance system collapsed.

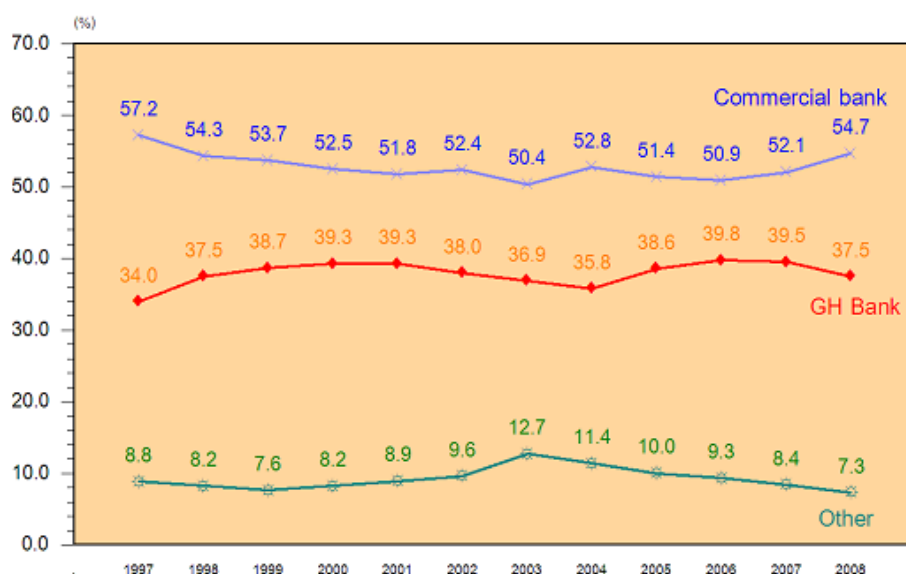
From the mid 1980s onwards, GH Bank began revolutionary reforms. Real estate lending to developers was discontinued. GH Bank decided to concentrate on retail mortgaging and fund raising.

GH Bank introduced a new kind of savings deposit that paid higher interest rates than commercial bank deposits. Huge funds flowed into GH Bank.

The GH Bank "Special Deposit Accounts" funds mobilization was so successful that together with other reforms, the Bank began expanding mortgage lending without funding problems. Home buyers in Thailand no longer had to wait for funding. This was the beginning of the successful Depository Method of housing finance, in which the main source of funds came from bank deposits.

Commercial banks, which controlled the largest savings market share in Thailand, however, were still not interested in housing finance. However, from late 1980s onwards, commercial banks and finance companies began extending home mortgage loans.

Even today, GH Bank still has about 37.5 per cent of the homes mortgage loans outstanding.



Remarks: Other consists of GSB, Finance Companies and Credits Fonciers

Source: BOT, GH Bank, GSB, NHA

### 3.2 Contribution of Housing and Housing Finance to the Economy

Financing became readily available for the real estate industry and end-user home-loan financing in the 1980s. The Thai economy at the same time has experienced two decades of unprecedented growth. Private sector housing estates catering to all income levels have mushroomed throughout every part of the country.

Real estate developments and big industrial projects expanded sharply after the Gulf War in 1991. However, excessive foreign currency borrowings encouraged by the government together with high risk lending by commercial banks caused the country to go bust in 1997 during the Thailand and the Asian Financial and Currency Crisis.

The Thai government has long realized the importance of a healthy real estate and construction sector. Some statistics show that the industry contributes as much as 25 per cent of the country's Gross Domestic Product (GDP). The residential real estate industry on its own contributes about 10 per cent to the country's GDP.

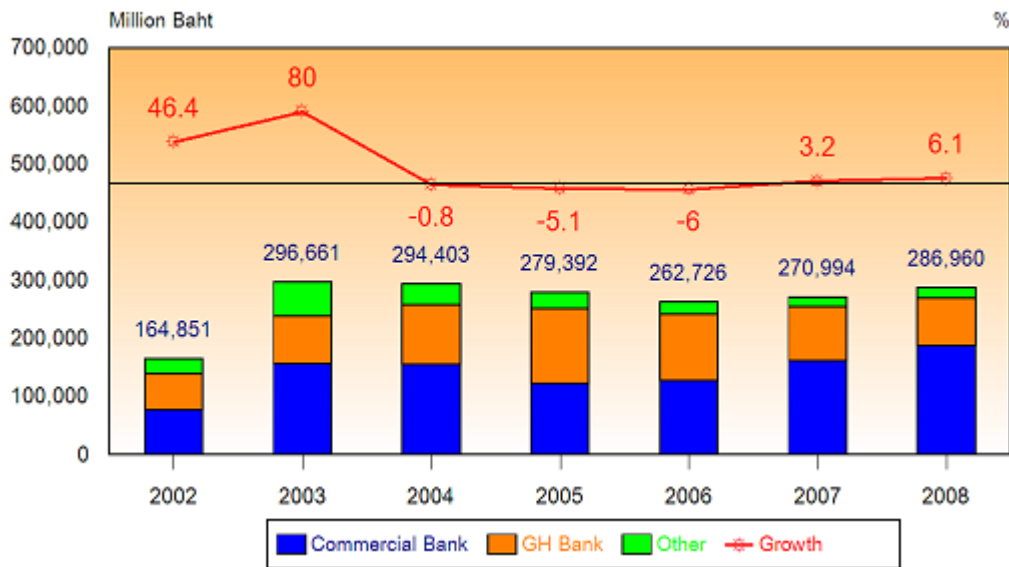
| Items                                 | 2002      | 2003      | 2004      | 2005      | 2006      | 2007      | 2008      |
|---------------------------------------|-----------|-----------|-----------|-----------|-----------|-----------|-----------|
| Residential Mortgage Outstanding (RM) | 759,822   | 866,856   | 1,055,084 | 1,220,394 | 1,351,182 | 1,468,230 | 1,583,084 |
| All Types of Loans (AL)               | 5,894,306 | 6,145,315 | 6,598,061 | 7,106,339 | 7,374,826 | 8,096,579 | 9,454,186 |
| GDP at current price                  | 5,450,643 | 5,917,369 | 6,489,476 | 7,092,893 | 7,841,297 | 8,493,311 | 9,102,785 |

| Items       | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 |
|-------------|------|------|------|------|------|------|------|
| RM:AL (%)   | 12.9 | 14.1 | 16.0 | 17.2 | 18.3 | 18.1 | 16.7 |
| RM: GDP (%) | 13.9 | 14.6 | 16.3 | 17.2 | 17.2 | 17.3 | 17.4 |

Several Thai governments have used real estate industry stimulus measures to revive the economy during various cyclical economic downturns. To revive a moribund economy during the 1997 crisis, the government encouraged GH Bank to begin special loan programs to middle-income Government Pension members.

This program helped clear the high housing inventory that many had blamed for exacerbating the unprecedented economic crisis. The special incentive program and other special tax and transaction incentives also helped to jump-start the middle and low-income industry and provided more than 100,000 people with new homes.

Most importantly, the resulting surging housing and housing finance recovery was viewed by most Thais as the key catalyst for a successful economic recovery from the 1997 crisis.



Source: Real Estate Information Center

### 3.3 Structure and Functions of Housing Finance Institutions

#### Government Housing Bank<sup>20</sup>

The Government Housing Bank was created when His Majesty the King Bhumibol Adulyadej graciously signed the Government Housing Bank Act BE 2496 on January 9,

<sup>20</sup> Adapted from Government Housing Bank, Annual Report 2008

1953. The Bank, a special-purpose financial institution under the Finance Ministry's supervision opened for business on September 24, 1953, with its mission being to help secure appropriate housing finance for the general public. During its first 20 years, GH Bank operated both as a housing finance provider and as a housing project developer.

In December 13, 1972, the government established the National Housing Authority to take over housing project development for the general public. It transferred all GH Bank's assets, liabilities, and rights associated with land and building rents to National Housing Authority. GH Bank remained in the business of extending short and long term loans to both housing project developers and long term financing to the general public wishing to build, buy or secure their own homes.

GH Bank began offering various deposit account services similar to other commercial banks on January 2, 1974. These deposit accounts served as an important source of fund mobilization, and allowed GH Bank to become a full-scale Bank offering both deposit and loan services. During the country's 1979 – 1981 economic crisis, GH Bank restructured its operations by dividing its credit section into general credit and housing project credit. At the same time, credit extension procedures were revamped to be more flexible. Personnel training courses were initiated and tax free special saving accounts with monthly withdrawal rights were launched. The Bank also established a credit center that reviewed housing project loan applications. The credit center was subsequently upgraded to the Project Finance Department, which is now responsible for analyzing and recommending such loans.

In 1982, the bank's credit system was developed. The Bank had many clients and the facilities were not sufficient. A head office was constructed in 1982 and in 1986, the Bank opened a new head office on Rama IX Road and the old office on Ratchadamnoen Avenue was transformed into a branch, becoming the first GH Bank branch. Currently the Bank has 75 branches and 7 sub-branches.

To conform with today's fast-changing lifestyles, the Bank now operates 16 seven-days-a-week banking counters at department stores. It has also opened 20 One Stop Services and 20 loan service units at district offices nationwide

The period from 1988-1966 was the golden era in the Bank's history in terms of credit extensions, market share and net profits. The Bank celebrated its 40<sup>th</sup> birthday in 1993 and was designated by the government as a model state enterprise. A new bank logo was created, changing from a floating mansion to two hands tenderly holding a house. The Bank began publishing a newsletter and opened its new [www.ghb.co.th](http://www.ghb.co.th) website. In 1996, the Bank was named by the United Nations Centre for Human Settlements or HABITAT as a Financial Institution with Outstanding Operations. The Bank proudly received this international recognition.

After Thailand's 1997-1999 economic meltdown, the Bank assumed an important role in reviving the housing and real-estate sectors in accordance with the government's policy. For example: During a period when financial institution non-performing loans were expanding, the Bank was a leader in debt restructuring by implementing 14 debt compromise measures. The Bank also provided 30-year-fixed low-interest rate loans in cooperation with the Government Saving Bank. GH Bank also established a secondary mortgage market office, the K-ha Ruam Jai Project and created a website specifically for home buyers at [www.ghbhomecenter.com](http://www.ghbhomecenter.com)

In 2001, GH Bank in cooperation with the Government Pension Fund began extending loans at up to 100 per cent of housing values to GPF members with progressive repayment terms. This scheme was subsequently expanded to include state-enterprise employees and

tenured government workers. The success of this scheme helped to significantly reinvigorate the real estate sector that was shattered by the 1997 economic crisis.

On January 17, 2006 an amendment to the Government Housing Bank Act No. 3 B.E. 2549 permitted the Bank to finance home furnishings and accessories. During the year, the Bank developed its “Loans for home lovers” program with financing programs for clients to buy living facilities such as furniture, kitchen ware, sanitary ware, electricity, etc upon the Bank’s categories that set up by Board of directors.

In 2007, The Bank launched its new corporate identity symbols to support its vision of being a State-of-the-Art-housing bank. The Bank’s acronym was changed to GH Bank. The Bank launched its new Core Banking System (CBS) A key element of the new CBS was restructuring the organization into a more efficient Hub and Spokes service delivery system. Another critical part of the CBS is the centralization of loan processing to the Bank’s new Credit Processing Center (CPC). The CPC will offer our customers more efficient and speedier high-standard services.

The Ministry of Finance and The Thai Ratings and Information Services Co., Ltd (TRIS) honored the Bank with Best State Enterprise awards for three consecutive years. The Bank also received Best Board of Directors award for three consecutive years and Best Performance and Best Management awards.

As of December 31, 2008, GH Bank has 1.58 million home mortgage loans outstanding and 37.5 per cent of outstanding housing loans in Thailand. The Bank’s total assets on December 31, 2008 was Bt663 billion (\$US18.94 billion) and net profits for 2008 were Bt3,306 million (\$US94.45 million).

## **Commercial Banks**

Currently, 33 commercial banks operate in Thailand, 17 Thai incorporated banks and 16 foreign banks. Thai commercial banks have become major providers of home loan financing since the late 1980s. Today they provide about 50 per cent of the total new home loans each year. (see Appendix 1)

While GH Bank concentrates on middle and lower income loans (Bt3 million and under), the commercial banks are major providers of housing loans in excess of Bt3 million per unit.

## **Government Savings Bank**

The Government Savings Bank (GSB) which is a Specialized Financial Institution owned by the Ministry of Finance also participates in home loan financing for special middle and low income government initiatives. As of the end of 2007, GSB had housing loans outstanding of 116 billion Bt. or about 25% of its loan portfolio.<sup>21</sup>

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<sup>21</sup> GSB Annual Report 2007

## **Islamic Bank of Thailand**

The Islamic Bank of Thailand Act was passed by the House of Representatives in October 2002.

The bank is under the supervision of the Ministry of Finance. It provides banking services under Shariah law. It has a very limited housing finance role in the Thai market. At the end of 2008, the bank has total assets of Bt. 23,847 million(USD 681 million). Its total loans stood at Bt. 16,687 million(USD 477 million), of which Bt.5,131 million(USD 147 million) were housing loans.

## **Credit Fonciers**

Credit fonciers finance the purchase of land and housing. They may not mobilize funds from public but mainly rely on borrowings. After the 1997 financial crisis, the number of credit fonciers was reduced from almost twenty companies to only three as of May 2009. At the end of 2007, total assets of these companies amounted to Bt. 2,285 .million and loans to the property sector amounted to Bt 943 million.

## **National Housing Authority (NHA)**

The Thai government established the National Housing Authority (NHA) in 1973 as a state enterprise under the Ministry of Interior. Four government agencies that serviced lower-income individuals were combined to form the NHA: Housing Welfare Division, Public Welfare Department, Bangkok Metropolitan Administration's Slum Improvement Office and GH Bank's construction division.

In 2003, the government reorganized its agencies and the NHA was attached to the newly created Ministry of Social Development and Human Security.

During the past three decades, the NHA has introduced many different types of dwelling units and services to the public.

Rental apartments, condominiums, rental shophouses, government employee housing, sites and services, subdivision residential projects, new towns emergency housing, and standardized housing projects are examples of housing developments undertaken by the NHA.

The NHA's Community Development Department has also implemented projects to relieve congested residential areas on public and private land through re-blocking, relocation and environment-enhancing projects such as using effective micro-organisms to clean waste water for 55,000 dwellings.

During the past 36 year, the NHA has successfully built 366,780 housing units and improved more than 289,314 homes for the poor. These include the following:

|  |                |
|--|----------------|
| • Community housing                    | 144,907        |
| • Government employee housing          | 49,766         |
| • Baan Eur athorn Projects             | 168,630        |
| • Urban Community Development Projects | 289,314        |
| • Rajaphat University Dormitories      | 2,374          |
| • Tsunami Victims Housing              | 845            |
| • Property Crisis projects             | <u>258</u>     |
| • Total                                | <u>656,094</u> |

Source: Information from NHA

### **Community Organizations Development Institute (CODI)**

The Community Organizations Development Institute (CODI) is a public organization under the supervision of the Minister of Social Development and Human Security. CODI was set up in 2000 by a Royal Decree which merged the Urban Community Development Office (UCDO), a unit attached to the National Housing Authority and the Rural Development Fund which was governed by the National Economic and Social Development Board. The Thai government set up UCDO in 1992 to address the problems of urban poor which had grown rapidly during the period of high economic expansion in 1980s-1990s. By merging with Rural Development Fund, the new body not only focuses on urban poor but also covers rural poor as well. CODI.'s main objectives are to support and empower community organizations and networks in the improvement of standard of living, income earning, housing and environment of their members.

CODI's initial capital was Bt. 2,899 million (\$US 83 million). It also receives annual funding for implementing projects and activities which correspond to CODI's Development Plan and special government programs such as Community Welfare, Poverty Alleviation and the Community Organization Strengthening Program.

Its funds are used for encouraging community-based savings and loans groups and providing financial support by lending capital funds to community organizations.

In 2003, CODI was mandated by the government to implement 'Baan Mankong Program' (BMK) with an aim to solve problems of settlements and human security for poor communities. The original target was set at 300,000 households during a five-year period but was later scaled down to 200,218 units. .

As of December 2008, outstanding loans to community organizations was Bt2,311.5 million (\$US68.4 million). Of this amount, housing loans constituted about 74 per cent of the loans.

## **Cooperatives and Credit Unions**

Cooperatives and credit unions provide important short-term housing financing for their more than 10 million members throughout Thailand. The 6,947 active institutions had total assets of Bt865 billion (\$US24.7 billion) at the end of 2007.<sup>22</sup> Cooperatives and credit unions are major sources of down-payment and housing renovation loans.

## **Secondary Mortgage Corporation (SMC)**

Secondary Mortgage Corporation (SMC) was set up in 1997 by an Emergency Decree on Secondary Mortgage Finance Corporation B.E.2540. Its main objective is to develop the secondary market for housing loans through securitization and raise housing finance funds.

At the time of its inception, Thailand was facing a credit crunch and the SMC was expected to stimulate the sluggish real estate business. SMC engages in two types of businesses; first is portfolio investment by purchasing good quality housing loans from GHB, commercial banks, finance companies and credit fonciers, second is securitization by purchasing housing loan portfolio from banks and then issuing mortgage-backed securities to investors based on such assets.

Currently, SMC has a limited housing finance role.. As of June 2008, its total assets were merely Bt.2,094 million (\$US 60 million), of which Bt. 1,859 million (\$US 53 million) were housing loans purchased from other financial institutions. These loans mainly had long-term tenures of up to 30 years. SMC has not done any securitization.

## **3.4 Legal Provisions & Regulations Relating to Housing Finance<sup>23</sup>**

### **Overview**

Financing is a key issue for any property development, whether it is for developers, contractors or ultimate buyers. All local and foreign financial institutions require security interests for property loans.

Under Thai law, the following forms of security/collateral are recognized and traditionally available: (i) mortgage of immovable property and certain types of movable property, (ii) pledge of movable property, and (iii) corporate or personal guarantees. Thai law does not recognize various forms of common law collateral/security interests, such as liens or charges.

For property related loans, the principal security taken is a mortgage over the relevant property. Lenders to property developers generally require additional security including

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<sup>22</sup> Cooperative Auditing Department, Ministry of Agriculture and Cooperatives

<sup>23</sup> Pornavalai, Cynthia and Karnchanapayap, Yingyong, 2009, Property transactions and security interests under Thai law, *GH Bank Housing Journal*, vol. 2, No. 4-5

pledging the operating and/or property owning entity's shares, assignment of contracts such as management, construction, assignment of bank accounts and insurance contracts as well as corporate or individual guarantees.

## **Mortgage**

Only certain types of property can be mortgaged, i.e., immovable property and certain types of movable property, such as certain types of machinery, equipment, and trade fixtures. Generally, machinery that can be mortgaged must be used and installed at a factory site and registered with the competent authorities according to the applicable laws. Office equipment, such as computers and other movable pieces of furniture, are not be deemed to be machinery.

Immovable property such as land and buildings and certain movable property such as ships or vessels 6 tons and over, steam launches and motor boats 5 tons and over, floating houses and certain types of machinery may be mortgaged. To be valid and enforceable under the law, a mortgage must be in writing and registered with the relevant authorities. In the case of land and buildings, the relevant authority is the Land Department. The registration fee is 1% of the amount of mortgage up to the maximum amount of Baht 200,000. Stamp duty is also levied at the rate of Baht 1 for every Baht 2,000 up to a maximum of Baht 10,000.

A creditor, whether a local or foreign financial institution has the right to take mortgages over land as security for loans, provided that its constitutional documents specifically state that it has the ability to lend money on security of an immovable property. There must also be evidence that the Bank is licensed under its jurisdiction of incorporation to engage in banking and financial services.

Enforcement of mortgage under Thai law takes two forms: by foreclosure and by entering action in Court. Foreclosure is instituted when the debtor has failed to pay interest for 5 years, or the mortgagor is not satisfied that the mortgaged property's value is sufficient to pay the indebtedness, or when there is no other encumbrance on the mortgaged property.

Other than the above conditions, mortgages can be enforced only by entering an action in Court for a judgment ordering the mortgaged property to be seized and sold by public auction. As foreclosure is rather cumbersome it is seldom used. In most cases, a mortgage is enforced by filing a case in court and getting a court judgment for sale of the mortgaged property by public auction.

## **Pledge**

A pledge is defined as a contract whereby a party, i.e., the pledgor, delivers to another party, i.e., the pledgee, a movable property as security for the performance of an obligation. The pledged property must be movable property or a right represented by a written instrument, and must be delivered into and kept in the possession and control of the pledgee or a third person (i.e., a security keeper) throughout the period of the pledge.

For the pledge of a right represented by a written instrument (such as a promissory note, bill of exchange, or cheque), the instruments must be delivered to the pledgee and the pledge notified in writing to the debtor of the right or endorsed upon the instrument (as the case may

be). If shares are pledged, the pledge can be set up against the company issuing the shares or a third party only if such pledge is recorded in the company's book. A pledge agreement shall be subject to stamp duty of approximately 0.05% of the pledge amount. However, if the underlying debt is a loan and the loan agreement has been duly stamped, the pledge agreement shall not be subject to any stamp duty.

A pledge may be enforced without court proceedings. The debtor is given written notification to perform his obligation (and the debtor fails to perform as notified) and the pledgor specifies the auction's time and place. If notification is impractical, the auction must take place one month after the obligation became due. The pledgee of a bill may collect the bill on the maturity date, without providing any notice.

### **Guarantee (Suretyship)**

A guarantee must be made in writing and must be for a valid obligation. Unless the guarantor has agreed to be jointly liable as a joint debtor, various defenses are available to him under the law.

Such defenses include: the creditor must first pursue remedies against the debtor and his property before proceeding against the guarantor. A guarantor is discharged upon the extinction of the debtor's obligations. If a time extension is granted to the debtor without the guarantor's consent, the guarantor is also discharged.

A future or conditional obligation may also be secured by a guarantee for the event in which it would have effect. Guarantees are not rights attached to real property.

### **Assignment**

The assignment of rights must be made in writing and the debtor must be notified or provide consent in writing. Such assignment would merely create contractual obligations between the contracting parties, but a security interest in the sense of real right attached to the property would not be established.

The interest that an assignee has in an assigned property is therefore not that of a secured creditor. The effect of an assignment is, subject to the limitations under bankruptcy laws (i.e. cancellation of prior dispositions by a bankrupt), to transfer the rights and claims into the ownership of the assignee. However, a claim is not assignable if it is not subject to judicial attachment or its nature does not permit the assignment.

Notwithstanding, it is possible to expressly state that the assignment is intended to secure the payment of certain obligations.

## Escrow <sup>24</sup>

In many countries, compulsory escrow accounts are required to protect property purchasers' interests.

Buyers and sellers mutually agree to appoint third party escrow agents that hold seller's documents and assets, as well as buyers' deposits or the full purchase price. The written tri-party agreement is known as the escrow agreement.

The escrow agent has a duty to ensure that the parties fulfill their obligations under both the contract and the escrow agreement. The escrow agent is responsible for safekeeping the money, assets or documents deposited by the parties and transferring the money or arranging the transfer of ownership or rights to the assets when required.

No such compulsory requirement yet exists in Thailand although in a move to provide property buyers more protection, Thailand finally enacted the Escrow Act on May 21, 2008.

Under the Act, the use of an escrow account is voluntarily entered by both contracting parties. Only commercial banks and finance companies (operating under laws governing financial institutions, and banks established under specific laws) may operate as escrow agents. In addition, escrow agents must be licensed by the Minister of Finance, based on Escrow Business Operation Supervision Committee recommendations.

The Act lists the conditions and requirements for engaging in the escrow business; the rights and duties of the parties to escrow agreements. those of an escrow agent, and the powers of the Escrow Committee.

Escrow agents will be monitored by the Escrow Committee, which has the authority to order them to correct or stop prohibited activities if they are detected and to perform their duties in compliance with the Act. Criminal penalties are also prescribed for escrow agents committing fraud.

The Act requires the escrow agent to deal with the property in escrow as follows:

- (i) The escrow agent is required to deposit the buyer's funds with a financial institution;
- (ii) for a real estate transaction, the escrow agent is required to inform the land office in writing of the escrow arrangements - the land office shall then record the existence of an escrow arrangement and not permit any title transfer registration until it receives the escrow agent's notice in writing;
- (iii) For other properties in escrow, the escrow agent is obliged to properly maintain such properties or any relevant documents thereto.

Once in escrow, the funds cannot be transferred unless the parties agree otherwise, or a court has passed final judgment. If an escrow agent becomes bankrupt, the escrow account funds and the property under enforcement are protected against attachment or seizure.

Unlike the new Condominium Act which significantly protects the buyers' interests, the Escrow Act falls short of requiring compulsory escrow arrangements for property transactions. Developers and sellers are still free to require deposits from buyers without granting much protection to buyers.

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<sup>24</sup> Pornavalai, Cynthia, 2009, New Escrow Act – still voluntary for property transactions, *GH Bank Housing Journal*, vol. 2, No 4-5.

Buyers' deposits are currently used to partially finance projects. In an increasingly buyer's market, however, this practice may change as buyers become more risk averse.

Developers and sellers nonetheless may find opportunities in a tightening property market by making use of escrow arrangements to their benefit. For instance, new developers may use escrow accounts to attract buyers.

In a buyer's market, it makes good business sense to give buyers additional assurances by minimizing their risks. Buyers want to buy into successful projects but more importantly they need to be assured that developers are reliable.

They also want to be assured they have non-judicial recourse if the developer defaults. In transactions involving foreign buyers, the involvement of an independent third party lends more credibility to the seller and the subject property. Buyers would not then be as concerned with large deposits, such as placing the total purchase price in escrow - that provide developers or sellers reassurance of buyer's commitment to close the deal.

### **3.5 Terms and Conditions of Lending for Housing**<sup>25</sup>

More than 90 per cent of home buyers in Thailand borrow money from financial institutions to purchase their homes. Consequently, it is important for policy makers, marketing managers as well as loan officers to understand the specific characteristics of the Thai home-loan mortgage market.

#### **Maximum loan amounts**

For most individuals, a home loan is usually the largest amount they will borrow in their life-times.

In Thailand, financial institutions allow home loan purchasers to borrow an amount equal to a multiple of their monthly incomes. Normally, home buyers monthly mortgage payments should not exceed 35 per cent of monthly incomes.

Most financial institutions, however, don't have ceilings on home loans amounts. They are normally only concerned with the borrower's credit worthiness i.e. whether the borrower can make the monthly principal and interest payments. However, in general, no home-loan can exceed the home's appraisal value.

Commercial banks in Thailand seldom issue mortgage loans of less than Bt1 million (\$US 28,600). GH Bank, a government owned Specialized Financial Institution (SFI) fills that void by providing home loans to middle and lower income Thais with its average loan approximating Bt700,000 (\$US20,000).

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<sup>25</sup> Kritayavanaj, Ballobh, 2009, Home mortgage lending practices – Thailand 2009, *GH Bank Housing Journal*, vol 3 No. 6

## **Loan-to-value ratios**

All Thai banks establish maximum loan-to-value ratios for home mortgage loans. In general, Thai banks will not permit loan-to-value ratios to exceed 70-90% of the purchase price or appraised value. However, the Government Housing Bank offers loans of up to 100% for some specific welfare programs such as mortgage loans to Government Pension Fund members. The Bank reduces its default risk on these loans by automatically deducting monthly installment payments from the buyer's salaries.

## **Loan term or repayment period**

Because home mortgage loans are normally for large amounts, they are usually long-term loans that are amortized over many years. Thai financial institutions generally provide home loans for 20 to 30 year terms.

Interest rates are fixed for three to five year periods and then adjusted to market rates for additional periods.

Some Thai financial institutions further limit loan-terms if buyers exceed a certain age. In these situations, a borrower's age and the loan term must not exceed 70 years. For instance if a borrower is 55 years old, the financial institution will limit the loan term to 15 years.

Most home-owners generally repay their home loans prior to the end of the original loan-term because their incomes rise over time or they sell their original homes or purchase new homes.

## **Mortgage Rates**

Financial institutions in Thailand establish fixed and floating rate home mortgage loans:

### Floating rate loans

Floating rate loans feature interest rates that may continually change over a loan-term. New interest rates are usually dependent on money market rate adjustments or changes in a determined reference rate

Specifically, "**Reviewable Rate Mortgages**" or "**Variable Rate Mortgages**" are loans with interest rates that can be adjusted at any time.

"**Adjustable Rate Mortgages**" refer to mortgage interest rates that are periodically adjusted to a reference rate such as a government bond.

In Thailand, floating rate loans refer to loans that are adjusted to changes in the "**Minimum Lending Rate**" (MLR) or "**Minimum Retail Rate**" (MRR). Floating rate home loans are normally equal to or plus or minus MLR/MRR rates depending upon the liquidity in the financial system, market demand for funds and the bank's competitive policies.

During the past three or four years, home loan interest rates were below MLR because banks were competing fiercely for housing loans. Floating rate home loans during the period carried lower interest rates than most other bank loans.

### Fixed rate loans

Interest rates on fixed-rate loans are fixed over the loan's contracted period (20-30 years). Fixed rate loans generally are constant payment, fully amortizing loans, repayable through equal monthly payments of principal and interest. Presently, no financial institutions in Thailand offer long term fixed rate loans similar to those offered in other countries (e.g. 30 year fixed mortgage loans are common in the USA). The Government Housing Bank currently offers the longest five year fixed-rate mortgage loan in Thailand. .

### Mixed-rate loan or hybrid mortgage

The Thai mortgage market offers two types of home mortgage loans:

#### A. Short term fixed rates – then floating

Many banks in Thailand offer mortgage loans with interest rates fixed for initial short periods (1-2-3-4-5 years). After the initial fixed period, the loan interest rate floats with the Bank's announced reference rate (MLR or MRR at the end of the fixed period). The new floating interest rate will either be lower or higher than the previous fixed rate, depending upon the financial market situation and bank's cost of funds at that time. For example, the Government Savings Bank's current short term fixed rate loan is fixed at five per cent for three years. After the three years, the interest rate will float at the Bank's MLR. (now 6.5%). The Siam Commercial Bank is now offering a one year fixed rate loan that will eventually float at MRR + 02.5%.

#### B. Stepped-up fixed rates and then floating

Some banks offer mortgage loans with fixed interest rates for two to five years. However, during this fixed period the rate will be stepped-up. After the fixed period the interest rate will float with the Bank's MLR or MRR. For example the Government Housing Bank offers three year stepped-up fixed rates of 3% for the first year, 4% for the second year and 5% for the third year; followed by floating rates,

Hybrid loan interest payments can be either fixed at the same interest rate for a contracted period (i.e. 5% for three years) or feature interest rates that change (but determined) over the contracted period (i.e. 3% year 1, 4% year 2 and 5% year 3).

### Special floating rates

Floating rate loans are usually for one to three year periods and the interest rates are tied to changes in the MLR or MRR. For example the Government Housing Bank's special floating rate currently is MRR – 2.00% for the first 3 years. Afterwards it will be changed to a floating rate at MRR – 0.50%.

### Rollover mortgage loans

These are short-term home loan mortgages, where-in the principal is refinanced and the interest rate is adjusted periodically, say at specified 3 – 5 – 7 year periods at the going renewal rate as agreed upon by lenders and borrowers. The adjusted interest rate will reflect the market rate. The Government Housing Bank no longer offers this type of loan. .

### **Mortgage interest rate ceilings**

The Bank of Thailand requires each bank to post a maximum interest rate ceiling specifically for floating rate home loan mortgages. Borrowers purchasing homes with floating rate loans will be subject to the maximum interest rate ceiling posted by the bank on the date their loans are funded (for the full loan term). Each bank sets its own interested rate ceiling.

Currently banks have established the following interest rates ceilings for floating rate home loan mortgages: GH Bank - 19%, Government Savings Bank - 18%, Bank of Ayudhya - 14.57%, Kasikorn Bank and TMB Bank - 12.75%, Bangkok Bank - 11.75%, Siam Commercial Bank - 11.25%.

### **Property Valuation or Appraisal**

All houses or mortgaged properties must normally be appraised prior to loan approval. The property appraisal may be undertaken by the bank's valuation department or outsourced valuation firms. The valuation reports are normally reviewed by the bank's internal valuation department.

The loan officers will use the valuation reports for loan underwriting. Approved loans normally do not exceed the appraised property value. In some cases, the bank will accept the developer's actual selling price as the appraised value. In these cases, borrowers are not required to pay valuation fees and the underwriting process is shortened.

### **Valuation fees**

Borrowers normally pay appraisal fees that are dependant on the value of the proposed loan or the bank's policies. For example, the Government Housing Bank charges valuation fees of Bt2,100 for loan amounts of Bt500,001 to Bt 3 million; Bt2,500 for loans exceeding

Bt3 million. Kasikorn Bank and Bangkok Bank charge valuation fees of Bt 2,500 for all loan amounts.

The Bank's credit officers use the appraisal reports to finalize loan amounts that are usually about 70 to 90 per cent of appraised value or selling price, whichever is lower.

### **Origination Fees**

Most financial institutions charge origination fees, underwriting fees, loan management fees and whatever fees they deem required. For example, Bangkok Bank charges 0.5% of loan as an origination fee while Siam Commercial Bank and Kasikorn Bank charge 0.25 %.( minimum Bt2,500). TMB Bank charges 0.25% (minimum Bt 1,000 and maximum Bt 10,000).

GH Bank does not charge origination fees for loans of less than Bt 500,000. The Bank may charge a fee of 0.01% if loan exceeds Bt 500,000.

### **Loan analysis and approval**

In the past, loan analysis and approval were carried out by loan analysts or underwriters based on credit information supplied by the borrower, such as employment history, salary, other income and savings statements, credit history etc. including property valuation reports. However, most financial institutions now use “**credit scoring**” models and National Credit Bureau's customer information to improve their loan underwriting and approval efficiency.

As a consequence, normal loan approval processes are now much quicker (one to two weeks) and NPLs have fallen in the past several years to as low as 2 per cent. Several Thai banks have even implemented computerized pre-approval systems that approve consumer loans within a few minutes after a borrower's profile is entered into the system.

### **Property transfers and mortgage registration**

Thai property must be transferred at the Land Department or its branch offices. Normally, the buyers, sellers and mortgage lenders gather at the Land Department on the closing date and execute the necessary documents and funds transfers. The property transaction process normally takes place within a few hours. The property transaction fee is 2% of property value. Recently, the Thai government reduced this fee to only 0.01% to stimulate real estate sales.

If the transaction includes a mortgage, the borrower must pay a one per cent mortgage registration fee. Recently, the Thai government also reduced this fee to 0.01% to stimulate sales.

If the borrower defaults on the mortgage, the Bank will foreclose on the property through the Thai judicial system.

## **Monthly installment payments**

Monthly home-loan mortgage payments depend on three factors: loan amount, interest rate and loan term.

In computing monthly payments for floating rate loans, most Thai financial institutions include a reserve that will help mitigate the “payment shock” from subsequent interest rate increases and accompanying higher mortgage payments.

For example, in computing a buyer’s monthly payment on an initial home mortgage loan with a nominal 6.5 per cent interest rate, the bank’s may add a one or two per cent “reserve”. The buyer’s monthly payments will then actually reflect interest rates equaling 7.5 or 8.5 per cent respectively. This practice will be useful for both lender and borrower as a cushion to mitigate potential default risks.

Thai banks normally use Minimum Lending Rate (MLR) or Minimum Retail Rates (MRR) as reference rates when determining home loan mortgage interest rates. For instance: GH Bank may use MRR+1%, Government Savings Bank at MLR + 0.25% etc.

## **Loan Repayment methods and channels.**

In general, borrowers must pay their first loan installment within 30 days from the date that they receive the loan. Installments can be made in the following manner: at bank counters by cash or cheque; direct debit from personal bank accounts or employer accounts; pay-point services; pay-at-post services; commercial counter services – 7-Eleven or Tesco Lotus stores.

## **Mortgage amortization**

Each monthly mortgage payment includes both principal and interest that are amortized over the loan term. The mortgage loan monthly payment will result in a declining principal balance and eventual repayment in full at the mortgage-term end.

Under the level payment amortization process adopted by Thai’s banks, interest payments constitute a higher portion of loan payments at the loan’s earlier years and are gradually reduced.

## **Prepayment penalties**

In Thailand, borrowers are permitted to partially or fully repay the loan. However, they will be charged prepayment penalties if they fully repay loans within three to five years after the contract date.

GH Bank charges a prepayment penalty of 3% if a loan is fully repaid in the first year and 2.5% and 2.0% in years two and three. Kasikorn Bank, Bangkok Bank and Bank of

Ayudhaya charge 3% if the loan is fully repaid during the first three years. Other financial institutions charge similar rates.

### **Late charges**

The banks impose late charges for outstanding payments after a grace period. For instance, GH Bank imposes a 13.5 per cent late charge if the borrower's loan payment is outstanding for 60 days. Bank of Ayudhya charges 20.57% while Kasikorn Bank, Bangkok Bank, Siam Commercial Bank charge 15%.

### **Mortgage related insurance**

In Thailand, all borrowers must purchase compulsory **“fire insurance”** on the properties naming the financial institution as the beneficiary-payee. Borrowers also may purchase **“mortgage life insurance”** that will pay-off the mortgage balance if the borrower should die during the mortgage term

**“Mortgage default insurance”** is still not available in Thailand at the present time. GH Bank has been in the process of organizing a Mortgage Insurance company during the past few years.

## **SECTION 4: PRO-POOR HOUSING PROGRAMS**

### **4.1. Pro-poor Government Programs**

#### **Lower-income housing programs**

Currently, the Thai government uses two primary programs, two approaches, and two banks to focus on lower income households.<sup>26</sup>

The National Housing Authority (NHA) offers the Baan Eur Arthorn program and Community Organizations Development Institute (CODI) offers the Baan Mankong Program. GH Bank and GSB target their mortgage loans at lower income households.

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<sup>26</sup> These households are not poor urban households. For example, Eua Arthorn requires a monthly payment of Bt 2500 Baht - 20% of income or a monthly income of 10,000 Baht or higher.

## **Baan Eur-athorn**

NHA is currently completing the Baan Eur Arthorn program which was started by the previous government in 2003. It's original goal of 600,000 homes has been scaled down to 300,000. Approximately, 200,000 units have been built and 100,000 units are currently under construction.

This program targets households with monthly incomes of Bt 15,000 (US 500) or less. The Government subsidizes Bt 80,000 (\$US 2,600) of the total Bt 470,000 (\$US 15,700) cost. This subsidy pays for onsite infrastructure and is deducted from the costs resulting in a Bt 390,000 (\$US 13,000) selling price.

Baan Eur Arthorn implementation problems include:

1. The weakness of “one price fits all policy.” This program targets households with Bt 15,000 per month income (\$US 500) or less. The Government subsidizes Bt 80,000 (\$US 2,600) of the total Bt 470,000 (\$US15,700) cost. This subsidy pays for infrastructure and is deducted from the costs resulting in a Bt 390,000 (\$US 13,000) selling price. The basic two-level dwelling on small plots (80 square meters with a frontage of 6 meters or more) suits buyers in the Bangkok Metropolitan area but fails to match the expectations of potential buyers in smaller towns where land is cheaper and more available.
2. A mismatch between supply and demand. Initially, the monthly payment for a unit was \$US 50 per month. Due to interest rate increases (from 4% to 7%), monthly payment rose to \$US 80 per month. The homes' physical design and location in many cases also mismatched potential buyers needs and desires.
3. Bank lending is lower than expected. It was also assumed that banks, like GH Bank, would readily provide loans to buyers of NHA projects. However, GH Bank's income certification and documentation requirements resulted in limited access for potential NHA home buyers who have sparse credit histories. These loans have had lower than expected approval rates. Because of lower than expected bank lending, NHA approached the Klong Chan Credit Union as a source of loans for buyers. Klong Chan Credit Union assists dwellers with mortgages to purchase NHA projects. NHA will also act as a financial institution providing hire-purchase agreements to buyers for the first five years.

The Government of Prime Minister Abhisit Vejjajiva is currently working on solutions to terminate the project at a minimum cost. According to the Cabinet ' resolution on June 30, 2009. the Cabinet permitted the NHA to lower the unit numbers from 300,504 units to 281,556. To relieve the NHA's financial burden the Cabinet approved the Baan Eau Arthorn project's incurred interest cost at the amount of Bt 3,587 billion for fiscal year 2009 and another Bt 1,205 billion for fiscal year 2010. The Government ordered the Minister of Social Development and Human Security, Minister of Finance and Minister of Interior to investigate various alternatives and estimate their various financial costs.

## **Baan Mankong**

The Baan Mankong Program's (BMK) objective is solving settlement and tenure security problems for poor communities countrywide. The concept of BMK is not to tackle each slum's problem individually but to look at collective problems on a city-wide scale. At initial stages, poor communities work closely with their local governments, professionals, government agencies, universities and NGOs to survey all the communities in their individual cities and then plan an upgrading process which attempts to improve all the city's poor communities.

Once these city-wide plans are finalized and upgrading projects are selected, CODI channels infrastructure subsidies and housing loans directly to the communities through legally established cooperatives or savings groups. Government subsidies to BMK are Bt. 68,000 per unit. The subsidy is paid to the implementing cooperatives to be used mainly for infrastructure improvements such as electricity, pipe, walkways, sewerage etc. A part of government subsidy is for housing improvement to reduce household financial costs. CODI acts as program facilitator and budget administrator and also provides long-term financing for land acquisition and housing construction.

BMK not only focuses on house building for low income people but also takes into account social aspects of the community such as welfare and living environments. The BMK concept allows poor communities to study their settlement's physical problems and develop their own resolution and implementation plans.

BMK has used various methods to upgrade low income settlements including:

- On site improvements

These projects help solve land tenure problems, improve the physical environment and basic services in existing communities with minimal adjustments to layouts or plot sizes. Community welfare programs and community businesses also benefit from these projects.

- Reblocking

Reblocking is a systematic way to improve infrastructure and physical conditions in existing communities along with land tenure security. Layouts of houses and roads are adjusted so that new sewers, drains, walkways and roads can be conveniently installed. These adjustments however do not interrupt a community's continuity because the total process is controlled by the community at its own pace.

- Land sharing

Land-owners and the community agree to share the land. A portion of the land is either given, sold or leased to the community where housing is to be reconstructed and the balance is returned to the landowner for development. This model allows both parties to settle their conflicts.

The community is no longer occupied by squatters but by legal owners or land tenants and the landlords are able to further develop the land.

- Reconstruction

Existing communities are totally demolished and rebuilt, after the community has secured the land either under long-term leases or purchases. The land security encourages occupants to invest in new reconstruction.

- Relocation

Occupants are relocated nearby if possible. Relocation is normally advantageous because it usually comes with housing security, through land use rights, ownership or long-term leases. Communities however face house reconstruction costs and in some cases land costs.

About 75 per cent of BMK projects are upgraded on existing land with on-site upgrading, reblocking or reconstruction or nearby relocations. From 2003 to March 2009 the Baan Mankong project umbrella encompassed 716 housing projects throughout Thailand, benefiting 77,944 households in 245 districts. CODI has granted loans totaling Bt2,787 million (\$US 79 million) to 180 of these projects.

## **Problems faced by BMK**

### Funding shortage

Poor communities are currently enthusiastic about resolving settlement problems through the BMK program. To reach its 200,218 units target, BMK will need additional loans of about Bt 15,000 million (about \$US 428 million) or about Bt 2,140 million annually over the next seven years. CODI's remaining capital funds are insufficient to support these future requirements. Funds from other sources must be mobilized. Currently, only Bt 500 million has been committed from GH Bank and no other public or private financial institutions have shown interest. Local banks are reluctant to join the program because they are still unfamiliar with community-based lending and its conventional high credit-risk perception.

Proper mechanisms are needed to bridge the gap. A guarantee fund that mitigates credit risk may provide some comfort to financial institutions and enhance financial institution's appetite for low-income financing.

### Public land-use policies

Various government agencies have different idle public-land policies that have exacerbated squatter resolutions. Some agencies support the BMK program and have agreed to lease squatted land to existing dwellers at low prices on a long-term basis. The original squatters have become lawful tenants and are willing to improve their living conditions. Other agencies either have different or no squatter policies. .

### Coordination between relevant organizations.

Several agencies are involved in the BMK process and each may have different policies towards resolving slum and squatter problems. Local authorities play a key role in upgrading process.

### Certain rules and regulations are obstacles to slum upgrading.

For example, the Building Code 1979 establishes minimum requirements for each building's exterior and minimum distances between buildings. Such requirements are not practical for low-income housing because of limited land. The government in 2007 has agreed that some exemptions are needed for low-income projects. Other laws relating to the environment, the Land Subdivision Act and the City Planning Act also have to be modified to that effect.

## **4.2 Pro-poor Programs of Formal Housing Finance Institutions**

In general, research for this report uncovered few pro-poor housing and housing finance programs offered by any financial institutions or organizations in Thailand. Many organizations provide traditional housing loans to low income households. However, these households have more income and assets than poor households. As far as can be determined, this applies to programs that might be offered by NGO's, etc. as well.

However, CODI has been able to work with GH Bank to provide long-term financing to poor communities. Other local banks are still reluctant to participate in the program as they are unfamiliar with community-based lending which is perceived as high-risk.

### **CODI-GH Bank refinancing program**

In 2007, CODI and GH Bank entered into an agreement whereby GH Bank agreed to refinance BMK projects from CODI up to an amount of Bt 100 million. This was a ground breaking program that allowed slum dwellers to access funding from a financial institution.

However, to access this financing CODI had to commit a portion of its capital funds to guarantee the loans and compensate GH Bank for the program's below-market interest rates.

#### Main features

Credit Guarantee. At the onset, CODI placed a fixed deposit of Bt 100 million with GH Bank as a credit guarantee fund. GH Bank is entitled to deduct from this fund for non-payment losses. Initially, CODI provided 100 % coverage for these loans.

Funding cost compensation. GH Bank agreed to take these loans on its books at the same interest rate and tenure as CODI-BMK's original loans. The loan carries a 4% fixed interest rate for up to 15 years. At that time, the rate was low when compared to prevailing market rates. CODI compensated GH Bank by placing additional amounts of low-interest deposits.

Eligible projects criteria. Eligible projects are cooperatives or savings groups which have obtained CODI-BMK loans and have made monthly repayments to CODI for at least one year. Construction is either completed or underway. The borrower must have maintained a good record with CODI i.e. never missed a single payment.

In early 2009, CODI and GH Bank agreed to increase the refinancing amount from Bt 100 million to Bt 500 million. Certain terms and conditions have also been eased, including

reducing the guarantee coverage to 20 per cent. Projects which have been implemented for at least six months are now eligible for refinancing by the bank as well.

### **Habitat for Humanity**

Habitat for Humanity's (Thailand) recently signed an MOU with GH Bank wherein the bank would provide new loans of Bt230 million (\$US6.57 million) to families to either build new homes or renovate existing homes. These loans will help about 2,300 families. Founded in 1998, this US based non-profit organization has helped 3,000 families with household incomes of between Bt5,000 and Bt15,000 per month achieve home ownership.

### **4.3 Pro-poor Programs of Co-operatives/Community-based organizations/ NGO's**

Certain types of co-operatives such as thrifts and credit union also offer housing loans to their primarily middle to low income members. In 2008, cooperatives' savings totaled Bt. 320,841 million while loans totaled Bt. 784,649 million.<sup>27</sup> However, no statistics were kept for housing loans.

No comprehensive information on Pro-poor housing finance seems to exist. The poor are considered to be very high risk because of cultural norms and random personal experience. In general, most lenders appear to believe that lower class borrowers seldom repay debts. When making a loan to such a poor person or household, the lender acknowledges these risks and accepts that the loan may not be repaid.

For credit unions, repayment is probably not an issue because of the structuring of credit cooperative groups where members are trained in credit, finance, and business operations.

Few pro-poor housing finance financing models appear to exist in Thailand. NGO's, and other such organization offer few financial programs assisting the urban poor..

It appears that the private housing and construction sector with government support has been able to provide some type of housing for most urban poor.

Furthermore, since Thailand has reached zero population growth, the problems of those who are poor will be more difficult to solve just as they are in more advanced countries.

A preliminary analysis of the 2000 Census showed that more poor households are headed by main-income earning women that became poor because of divorce and the death of a spouse.

Poor people in general have fewer income earners and income receivers. The number of income receivers in a household is important in determining the amount of household income. Many elderly farmers who own their own house and land are poor because no one is sending them money (that may have occurred may be only during the month of the survey).

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<sup>27</sup> Cooperative Auditing Department

The practice of adult children sending regular amounts of support to elderly parents may also be changing. Tracking this data would provide clues.<sup>28</sup>

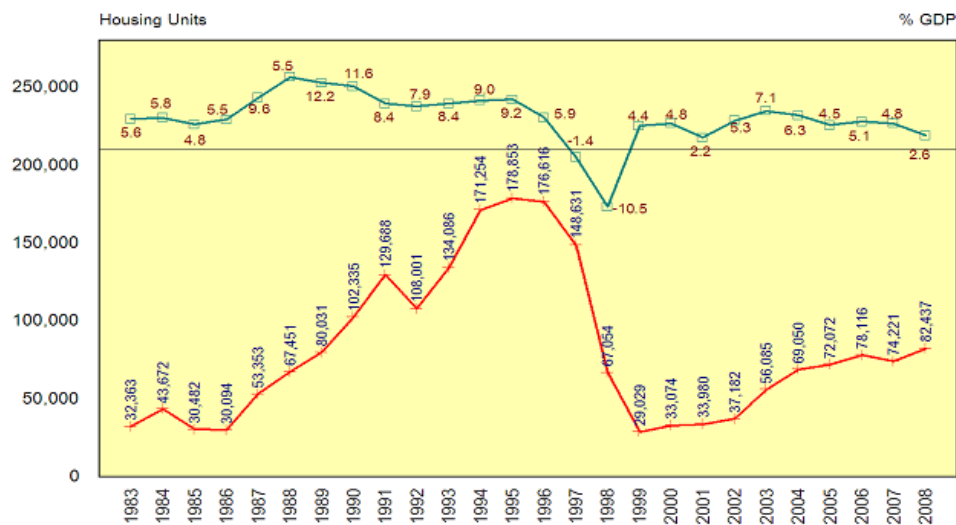
In Thailand, programs for the poor should link adequately with those of the government and local officials to gain public support and avail optimum benefits to poor citizens.

## SECTION 5: EXTENDING HOUSING FINANCE

### 5.1. Potential Housing Finance Market

The housing finance market potential will be huge during the next several decades because more than 50 per cent of the population that is currently under 35 years old will be reaching the home-buying age. Moreover, GDP per capita levels will be increasing and home-ownership rates are expected to rise commensurately. Migration to urban areas for work will also contribute to a growing need for housing.

Statistics show that home mortgage financing has risen with economic growth. (See chart)



Source: GH Bank, REIC, NESDB

Compiled by: GH Bank Research & Information Services Department

The home-financing market will grow steadily as household incomes increase. More people will reach the middle and lower income levels serviced by GH Bank.

Housing finance for the poor, however, will most likely remain very limited and difficult to expand or justify on the basis of financial risk.

<sup>28</sup> This appears to be an issue in the Central Region for the most part.

## **5.2 Expanding Housing Finance of the Formal Sector**

We believe that home-mortgage financing especially for the poor can be increased if governments allocate some of the financing costs to housing programs that are specifically tailored for the poor and represent an overall national social responsibility to provide adequate housing.

Financing may also be expanded more rapidly if homeowners could acquire a one-time carry along mortgage that would also act as a line of credit that is dependent on the appraisal, purpose, and amount of credit.

The original idea of NHA's small business loan program (circa 1975) was to involve the Krung Thai Bank and the borrowing household with NHA staff who would qualify, train and supervise participants. A small loan of up to \$US 500 was available (about Bt 12,500). When the loan was paid back, the participant would automatically receive a small line of credit which might increase depending upon repayment history. At least some early participants doubled their income in less than one month under this program. However, the bank never understood the dynamics and advertising benefits that might accrue and NHA staff were slow to implement the program.

Thailand's policy framework relies on the private construction sector utilizing their own financing source to provide middle and upper income housing. Buyers have access to retail banks and GH Bank for residential loans.

For the lower income households, projects initiated by the previous government are now being completed. The original number of 600,000 units in five years has been reduced to about 300,000 by 2011. Meanwhile, the NHA looks to use quick-build apartment technology in urban areas and investigates how to meet rural housing needs. NHA's Department of Housing Development Studies has supported various rural housing alternatives for the past 3 years from investigations into preservation of semi-rural older urban centers inside existing urban areas to projects rebuilding houses in villages by using a mix of modern materials and existing materials from the villagers' existing houses.

Funding for the private sector comes from a number of sources. Many large developers have adequate cash flow resources or investors to self-finance their projects. Banks lend to construction companies and lend mortgage funds to buyers. GH Bank is the major lender for housing loans. Present government policy directs the National Housing Authority to sell off all the existing and planned units as mentioned above.

## SECTION 6: CONCLUSIONS AND RECOMMENDATIONS

### 6.1. Key conclusions

#### National Housing Policy required

Thailand should continue supporting free market housing development and financing systems. These consumer-driven markets should adhere to HM, the King's sufficiency economy initiatives.

The country should also develop a national housing policy that specifically addresses low-income housing. The National Housing Policy Board establishment is a step in this direction beginning with its inauguration on July 9, 2009 (For more details see Section 2.3). Furthermore, to ensure the execution of long-term sustainable housing policies, Thailand should perhaps implement specific Ministries to be responsible for housing and urban development.<sup>29</sup>

Housing should be viewed as a sustained national priority; a long-term process that requires a stable policy framework and national priority attention. It should also be viewed as an engine of social and economic development and brings significant benefits in terms of employment creation, domestic capital mobilization and social well-being in the face of the major challenges posed by population growth and urbanization.

The Thai government should give high-priority for establishing a long-term housing policy and strategy that includes providing adequate housing for the poor, Thailand should also develop strategic housing plans with clear-cut targets and mechanisms that will ensure that target objectives are achieved. As part of this overall program, preventative measures should also be discussed to reduce future slum developments.

All of these suggestions should be an integral part of reforming national low income housing policy. They will change the low income housing landscape by minimizing risk and the Government's ultimate financial responsibilities.. To change this landscape, government agencies that support the society and the economy must adequately and effectively serve their customers – the private sector and citizens. This change appears to be one of the goals of the 1997 Constitution.

Relevant laws and regulations should be reviewed to support any proposed implementation and any plan should be periodically reviewed and reassessed (every three years).

A critical element of a National Housing Policy would be periodically re-determining at what income levels and other variables<sup>30</sup> the poor should be provided access to home-ownership. The National Housing Policy and strategy should therefore specifically provide a

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<sup>29</sup> Prachuabmoh, Khan, 2007, An integrated National Housing Development Strategy – key to a sustainable Thai economy, *GH Bank Housing Journal*, vol 1, No 1.

<sup>30</sup> Such as shelter payments, savings, change in assets, and other factors related to the activities of households.

comprehensive range of housing alternatives for the poor that have not reached the “home-ownership” threshold.

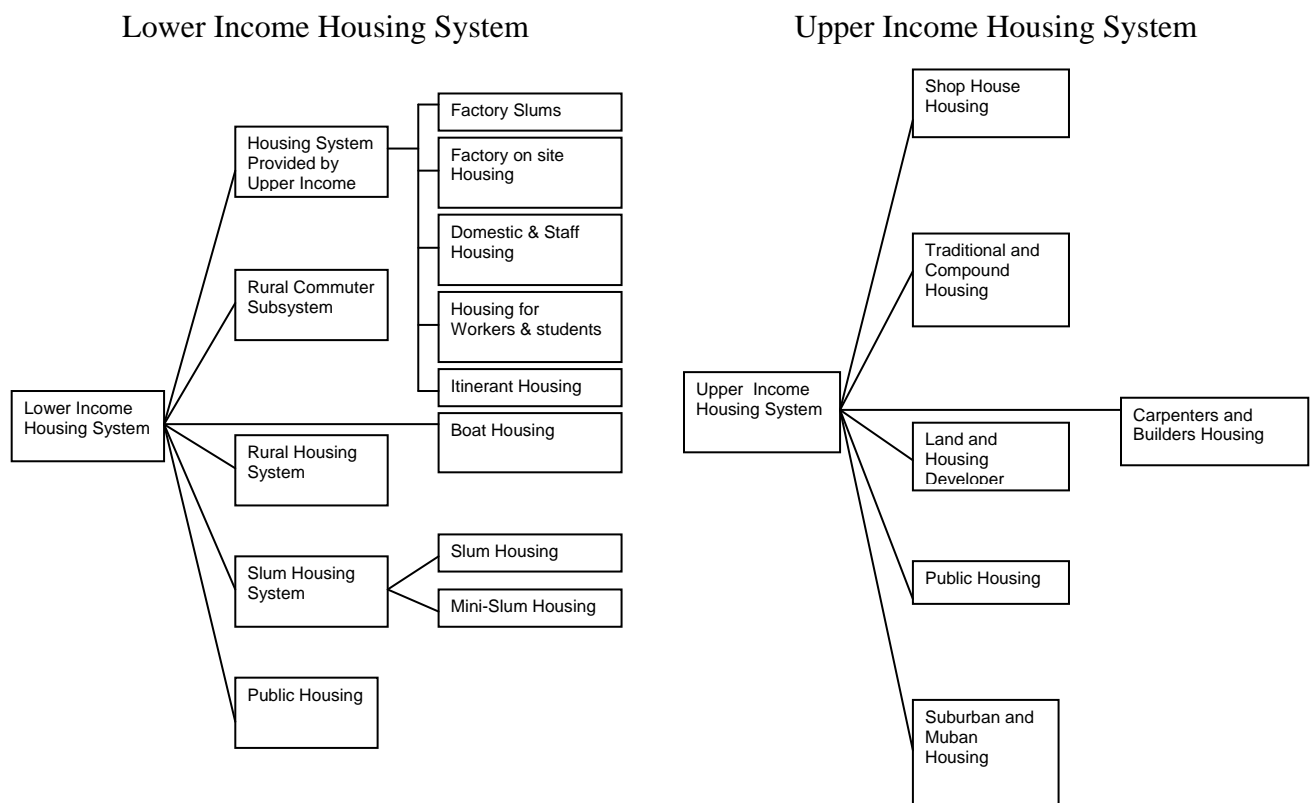
For instance, people that are very poor would be provided subsidized rental-housing that would be funded from national budgets. At higher income levels, government subsidies will be decreased and home-ownership will be encouraged through specific programs.

### Housing Supply System model

The Housing Supply System model should be used to support the delivery of housing. Systematic support should be developed for supply sector factors including housing finance, owner builder replacements, renovation, and expansion of housing as legitimate housing stock additions.

Housing adequacy varies by social and economic circumstances. Empirical studies show that 14 per cent of monthly income is the cultural norm for housing needs.<sup>31</sup> Financial institutions have established an upper limit of between 20 to 25 per cent of monthly.

The Lower Income Housing Supply System diagram indicates how households with low incomes are provided housing in Thailand. To better serve their needs, focus could look at how each different alternative can be improved or optimized.



## 6.2 Outline future needs

To optimize its housing delivery system, Thailand should also review and revise if necessary some of our existing programs. The focus would be to keep the Thai Housing

<sup>31</sup> See Johnson, T. E., Housing Demand Study to Provide Estimates of Housing Demand, Housing Affordability, and Housing Need, National Housing Authority, Department of Housing and Human Settlements Studies, June 21, 2549.

Supply as elastic as possible. That is: keeping the cost of new housing units from rising as increased numbers of housing units are built.

### **Continue land-tenure development**

In general, land tenure in Thailand is thoroughly organized and has a long historical tradition. A free market economy exists and property is regularly and easily transferred.<sup>32</sup>

Nevertheless, Thailand's overall titling process still needs to be improved. Large amounts of farmland leased from Forestry Department or otherwise have no titles. The government's policy is to establish legal tenure on most agricultural land in Thailand.

True title deeds (Chanote ti din) are only found in the developed-parts of the country and accounts for only a part of the land in the country Chanote titles, issued by the Provincial office of the Thai Land Department, are accurately surveyed, plotted in relation to a national survey grid and also marked by unique numbered marker posts set in the ground

The Land Department's long-term goal is to ensure that all land in Thailand is under the Chanote title system. However, this process is expected to take decades because of limited available funds, manpower and resources.

Most "titles" in rural Thailand are however of the Nor. Sor. Sam or Nor Sor. Sam Kor. (N.S.3.) variety and are in the strictest interpretation "land exploration testimonial deeds". They are to all practical purposes land title deeds (issued and maintained by the Amphur, the District land office) in as much as clear records of ownership are maintained. They may be sold, leased, used as mortgage collateral etc. In the case of the Nor. Sor. Sam. (but not the more recently issued Nor. Sor. Sam. Kor.) 30 days public notice is required before any change of status over the land can be registered.<sup>33</sup>

### **Baan Eur-athorn**

Although the Baan Eur-athorn project has provided homes for more than 150,000 lower income Thais, the targeted home-owners (families that earned Bt 15,000 per month) had great difficulty qualifying for mortgage loans at GH Bank. More than 45 per cent of the applicants were rejected for financing.<sup>34</sup>

Baan Eur-athorn homes are all sold at Bt 399,000 and include Bt80,000 subsidies paid to developers While the Baan Eur-athorn program has been widely accepted as a viable option for lower-income Thais, the long-term financing mismatch has been a major reason why the project has not achieved its objective of providing 600,000 homes for low-income Thais in five years.

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<sup>32</sup> Patpongpibul, Kitti, 2009, Government Housing Bank and Housing Finance in Thailand, *GH Bank Housing Journal*, vol. 3, No. 6

<sup>33</sup> [www.ethailand.com/index.php?id=536](http://www.ethailand.com/index.php?id=536)

<sup>34</sup> NHA statistics

Over the long-term, solutions for end-product and end-financing mismatches should be carefully considered before any new low-income project is undertaken. Short of providing guarantees, government could develop public or private subsidized rental programs for all citizens that do not earn a minimum monthly income.

### **Establishing a National Housing Fund (NHA's view)**

Thailand should consider creating a National Housing Fund (NHF), a specialized housing finance institution that will provide home financing for families that earn Bt20,000 per month and lower. The Fund should be established as a new entity but employ operational expertise from existing organizations such as GH Bank. This new institution would aim at providing housing finance for low income groups unable to access existing finance sources because of difficulties in providing documentation to support their loans. Certain support features should be designed, for example protection for 3 months missed payments, rent with option to purchase, asset recovery guarantees when collaborating with other low income housing finance providers.

The funding of the NHF will employ the Collateralized Debt Obligation concept that divides fund raising into tranches. Each tranche would have different risk profiles. The government should play an important role by providing funding and bank guarantees for overdraft facilities. The government's capital injection must be sufficient to cover potential fund losses from the highest risk group. Debt funding for other tranches should be achievable.

NHF may work with cooperatives to provide asset recovery guarantees if these cooperatives provide housing loan to low income groups. This utilizes the cooperatives' strong liquidity.

### **Establishing a National Housing Fund (CODI's view)**

Thailand should consider creating a 'National Housing Fund', a specialized housing finance institution that will provide home-financing for families that earn Bt 20,000 per month and lower. The Fund could be established as a new entity or be structured as a unit attached to existing organization such as GH Bank. The new institution's primary role should not be as a funder of retail home-loans to the poor but should be equipped with the tools and capacity to encourage existing financial institutions to actively participate in low-income housing finance.

The Fund should also cooperate closely with CODI, NHA, cooperatives and municipalities or even private sector in promoting housing projects for low income groups.

To encourage bank participation in low-income housing finance, the Fund may provide the following services.

Credit Guarantees. The new entity may provide partial guarantees to banks which lend to low income families or groups or assume a certain percentage of 'first loss.'

Co-financing. The Fund and banks may participate jointly in housing loans under risk sharing programs. Most banks are reluctant to offer fixed-rate long-term loans because they are primarily funded by short-term deposits. With co-financing, banks could take short-term portion while the long-end is supplied by the Fund.

Capital market activities. The Fund should also play a key role in promoting a SET listed property fund associated with low-income housing schemes. The government could also provide tax incentives to create investors' interests.

Financial institutions participating in the scheme should be provided additional incentives including tax and reserve waivers.

Initial capital should come from the government with additional funds to be raised through capital markets such as government-guaranteed bonds, mortgaged-backed securities, etc. Operating funds could also come from international development agencies in terms of grants and/or soft loans.

### **Additional GH Bank role**

GH Bank could also be mandated with more incentives to play a leading role in providing housing finance for the poor. Currently, GH Bank is the major supplier of home loan financing to the lower and middle income segment. However, because it operates as a financial institution that is regulated by the Bank of Thailand, it is often reluctant to extend loans to the poor with no prior credit histories..

A separate entity could be established specifically under the GH Bank umbrella with concessionary funding from the government to specifically grant loans and develop strategies that will increase the amount of home-lending financing for the poor. .

### **Capital Markets and Securitization Developments**

As the Thai capital markets continue developing they will become a greater source of direct and indirect financing for housing finance.

GH Bank and the Government Savings Bank have long accessed the local and international debt markets for funding. In the last several years, much of this debt funding has not required government guarantees and is readily available if priced appropriately.

The NHA in 2002 securitized Bt700 million (\$US20 million) of its hire-purchase receivables. These securities were successfully sold to domestic investors. However, the NHA has not initiated any new securitizations since

Securitizing CODIs receivables will provide access to the capital markets. CODI could consider the model used by NHA to securitize Bt700 million of its hire-purchase receivables in 2002. To attract investors, credit enhancements and guarantees will inevitably be required from CODI. The enhancement costs will have to be carefully analyzed and the total securitization costs will have to be compared with other financing and funding alternatives.

GH Bank planned a \$US 1 billion securitization of its loans in 2007 both locally and internationally. This project attracted bids from 22 local and foreign investment banks but its ultimate launch was delayed by the global financial crisis.<sup>35</sup>

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<sup>35</sup> Woo, K I, 2007, Securitization – Thailand's housing industry needs it!, *GH Bank Housing Journal*, vol. 1, No. 1

## **Rural low income housing**

We estimate that more than 30 per cent of rural housing in Thailand is dilapidated. The NHA is developing a program with the Bank of Agriculture and Cooperatives (BAAC) to help fund upgrading loans.

## **Redefining risk assessment factors for the poor**

To increase housing financing loans to the poor, risk assessment factors should be adjusted so that the poor can qualify for housing loans. The government could mitigate some of the risks so that the private sector will participate in the funding.

Programs must also be established to train the poor to live within set budgets for specific periods. After a specific period, these people will be able to obtain loans primarily by providing sweat equity as down payments on their homes.

## **Consumer finance education for the poor – consumer protection**

Consumer finance education for lower-income households is critical for the development of home-loan financing. This education should also coincide with the development and promotion of adequate Consumer Protection Laws.<sup>36</sup>

The Consumer Protection Act (1979) addresses five basic rights, namely, the right to be informed, the right to choose, the right to safety, the right to redress and the right to fair contract terms.

## **6.3 Future opportunities and challenges**

We believe that regional and international cooperation on low-income housing should be encouraged. The Ministry of Finance should assist in identifying international funding sources for this sector.

International agencies such as the World Bank, Asian Development Bank should be more active in this sector. For example, an international low-income housing guarantee fund could help the poor tap funds from global markets.

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<sup>36</sup> NHA records

## 6.4 Future action

Currently the private sector and the government provide adequate housing finance for middle and lower income people in Thailand. However, the poor still have few housing finance options.

Improving the housing delivery system and implementing new specific programs for the urban and rural poor will increase housing for the poor. Urban and rural poor housing programs should emphasize small business development: training, apprenticeship, mentoring, small loans, and networking.

The Thai government housing sector will soon be coordinated and supported by the recently established National Housing Board. Policies will then be generalized and all stakeholders should then have a voice in determining future national housing policy directions.

Future governments may have to bite the bullet and increase NHA Housing or subsidized private rental housing projects especially for citizens that have migrated to the urban areas for work. Project costs should be viewed by all governments as a critical part of providing appropriate infrastructure as our economy industrializes and more people migrate to the cities. Slums should not be viewed as an acceptable industrialization by-product.

Thailand is undergoing major population and labor demographic changes. Attention needs to be paid to the variation in the characteristics of individuals, families, and households so the housing supply, demand, and financing decisions reflect the changes in population characteristics.



Although Thailand's Environmental Impact initiatives are widely recognized as necessary for improving the country's overall quality of living, these sometimes harsh requirements can hinder redevelopments in low income areas. For instance, standard street widths may stop any slum area from being upgraded.

We suggest that an overall national housing policy should specifically provide mitigation of certain environmental impact requirements for slum-upgrading projects.

## APPENDIX 1A

### Schedule of commercial banks in Thailand

| No. | Logo  | Institution Name   | Address  |
|-----|---|--|--|
| 1   |    | ACL BANK PUBLIC COMPANY LIMITED<br><a href="http://www.aclbank.com">http://www.aclbank.com</a>   | 11- 13 Fl., Emporium Tower 622 Sukhumvit Road, Khlong Ton, Khlong Toei, Bangkok 10110<br>Tel. 0-2663-9999<br>Fax. 0-2663-9888              |
| 2   |    | BANGKOK BANK PUBLIC COMPANY LTD.<br><a href="http://www.bangkokbank.com">http://www.bangkokbank.com</a>                                      | 333 Silom Road, Bangrak Bangkok 10500<br>Tel. 0-2231-4333<br>Fax. 0-2236-8281-2  |
| 3   |    | BANK OF AYUDHYA PUBLIC COMPANY LTD.<br><a href="http://www.krungsri.com">http://www.krungsri.com</a>   | 1222 Rama III Road, Bang Phongphang Yan Nawa, Bangkok 10120<br>Tel. 0-2296-2000<br>Fax. 0-2683-1304  |
| 4   |    | CIMB THAI BANK PUBLIC COMPANY LTD.<br><a href="http://www.cimbthai.com">http://www.cimbthai.com</a>  | 44 North Sathon, Silom Bangrak Bangkok 10500<br>Tel. 0-2633-9000-3<br>Fax. 0-2633-9026   |
| 5   |    | KASIKORNBANK PUBLIC COMPANY LTD.<br><a href="http://www.kasikornbank.com">http://www.kasikornbank.com</a>                                    | 1 Soi Kasikornthai, Ratburana Road, Bangkok 10140<br>Tel. 0-2888-8888<br>Fax. 0-2888-8882  |
| 6   |  | KIATNAKIN BANK PUBLIC COMPANY LIMITED<br><a href="http://www.kiatnakin.co.th">http://www.kiatnakin.co.th</a>                                 | 500, Amarin Tower, Ploenchit Road, Pathumwan, Bangkok 10330<br>Tel. 0-2680-3333<br>Fax. 0-2256-9933  |
| 7   |  | KRUNG THAI BANK PUBLIC COMPANY LTD.<br><a href="http://www.ktb.co.th">http://www.ktb.co.th</a>   | 35 Sukhumvit Road, North Klongtoey, Bangkok 10110<br>Tel. 0-2255-2222<br>Fax. 0-2255-9391-3  |
| 8   |  | SIAM COMMERCIAL BANK PUBLIC COMPANY LTD.<br><a href="http://www.scb.co.th">http://www.scb.co.th</a>  | 9 Rutchadapisek Road, Chatuchak, Bangkok 10900<br>Tel. 0-2544-1000<br>Fax. 0-2544-4948   |
| 9   |  | STANDARD CHARTERED BANK (THAI) PUBLIC COMPANY LIMITED<br><a href="http://www.standardchartered.co.th">http://www.standardchartered.co.th</a> | 90 North Sathorn Road Silom Bangkok 10500<br>Tel. 0-2724-4000<br>Fax. 0-2724-4444  |
| 10  |  | THANACHART BANK PUBLIC COMPANY LTD.<br><a href="http://www.thanachartbank.co.th">http://www.thanachartbank.co.th</a>                         | 1st, 2nd, 13th, 14th floor Thonson Building, 900 Ploenchit Road, Lumpini, Pathumwan, Bangkok 10330<br>Tel. 0-2655-9000<br>Fax. 0-2655-9001 |
| 11  |  | THE SIAM CITY BANK PUBLIC COMPANY LTD.<br><a href="http://www.scib.co.th">http://www.scib.co.th</a>  | 1101 Newpetchburi Road, Rajthevi, Bangkok, 10400.<br>Tel. 0-2208-5000<br>Fax. 0-2253-1240, 0-2226-3798                                     |
| 12  |  | TISCO BANK PUBLIC COMPANY LIMITED<br><a href="http://www.tisco.co.th">http://www.tisco.co.th</a>   | TISCO Tower, 48/2 North Sathorn Road, Silom, Bangrak, Bangkok 10500<br>Tel. 0-2633-6000<br>Fax. 0-2633-6800                                |

| No. | Logo  | Institution Name  | Address  |
|-----|---|---|--|
| 13  |  | TMB BANK PUBLIC COMPANY<br>LIMITED<br><a href="http://www.tmbbank.com">http://www.tmbbank.com</a>                   | 3000 PHAHON YOTHIN ROAD,<br>CHATUCHAK, BANGKOK 10900<br>Tel. 0-2299-1111<br>Fax. 0-2990-6010 |
| 14  |  | UNITED OVERSEAS BANK<br>(THAI) PUBLIC COMPANY<br>LIMITED<br><a href="http://www.uob.co.th">http://www.uob.co.th</a> | 191 South Sathon Road, Bangkok 10120,<br>Thailand<br>Tel. 0-2343-3000<br>Fax. 0-2287-2973-4  |

## APPENDIX 1B

### Schedule of retail banks in Thailand

| No. | Logo  | Institution Name  | Address  |
|-----|---|---|--|
| 1   |  | AIG RETAIL BANK PUBLIC COMPANY LIMITED<br><a href="http://www.aigretailbank.co.th">http://www.aigretailbank.co.th</a> | 990 Abdulrahim Place 7th and 10th Fl., Rama 4 Road,<br>Silom, Bangrak, Bangkok 10500<br>Tel. 0-2687-9999<br>Fax. 0-2687-9988                   |
| 2   |  | LAND AND HOUSES RETAIL BANK PUBLIC COMPANY LIMITED<br><a href="http://www.lhbank.co.th">http://www.lhbank.co.th</a>   | 1 Q. House Building, Lumpinee, South Sathorn Road,<br>Sathorn, Bangkok 10120<br>Tel. 0-2677-7111, 0-2359-0000<br>Fax. 0-2677-7227, 0-2359-0059 |
| 3   |  | THE THAI CREDIT RETAIL BANK PUBLIC COMPANY LIMITED<br><a href="http://www.tcrbank.com">http://www.tcrbank.com</a>     | 1st floor, 123 Thai Life Insurance Bldg., Ratchadaphisek Road, Dindaeng, Bangkok 10400<br>Tel. 0-2697-5454<br>Fax. 0-2246-9782                 |

## APPENDIX 2

### Schedule of SFIs from MOF

| No. | Logo  | Institution Name  | Address   |
|-----|---|---|---|
| 1   |    | BANK FOR AGRICULTURE AND AGRICULTURAL COOPERATIVES<br><a href="http://www.baac.or.th">http://www.baac.or.th</a>             | 469 Nakornsawan Rd., Jitradha, Dusit, Bangkok 10300<br>Tel. 0-2280-0180<br>Fax. 0-2280-0442   |
| 2   |    | EXPORT-IMPORT BANK OF THAILAND<br><a href="http://www.exim.go.th">http://www.exim.go.th</a>                                 | Exim Bldg., 1193 Phaholyothin Rd., Samseannai, Phayathai, Bangkok 10400<br>Tel. 0-2271-3700<br>Fax. 0-2271-3204                               |
| 3   |    | ISLAMIC BANK OF THAILAND<br><a href="http://www.isbt.co.th">http://www.isbt.co.th</a>                                       | M, 21-22 Floor, Q. House Bldg., 66 Sukhumvit 21 Rd., North Klongtoey, Wattana, Bangkok 10110<br>Tel. 0-2650-6999<br>Fax. 0-2204-2765          |
| 4   |   | SECONDARY MORTGAGE CORPORATION<br><a href="http://www.smcthailand.com">http://www.smcthailand.com</a>                       | 5th Floor, Silom Office Tower, 393 Silom Rd., Silom, Bangrak, Bangkok 10500<br>Tel. 0-2685-0695<br>Fax. 0-2685-0637-8                         |
| 5   |  | SMALL AND MEDIUM ENTERPRISE DEVELOPMENT BANK OF THAILAND<br><a href="http://www.smebank.co.th">http://www.smebank.co.th</a> | 310 Phaholyothin Rd., Samseannai, Phayathai, Bangkok 10400<br>Tel. 0-2265-3000<br>Fax. 0-2265-4000  |
| 6   |  | SMALL INDUSTRY CREDIT GUARANTEE CORPORATION<br><a href="http://www.sbcg.or.th">http://www.sbcg.or.th</a>                    | 17-18th Floor, Charn Issara Tower 2, 2922/243 New Petchburi Rd., Bangkok, Huaykhwang, Bangkok 10310<br>Tel. 0-2308-2741-8<br>Fax. 0-2308-2749 |
| 7   |  | THE GOVERNMENT HOUSING BANK<br><a href="http://www.ghb.co.th">http://www.ghb.co.th</a>                                      | 63 Rama 9 Rd., Huaykhwang, Huaykhwang, Bangkok 10320<br>Tel. 0-2645-9000<br>Fax. 0-2645-9001  |
| 8   |  | THE GOVERNMENT SAVINGS BANK<br><a href="http://www.gsb.or.th">http://www.gsb.or.th</a>                                      | 470 Phaholyothin Rd., Samseannai, Phayathai, Bangkok 10400<br>Tel. 0-2299-8000<br>Fax. 0-2271-1515  |

## APPENDIX 3

### Key Institutions, Regulators, and Related Laws

| Item |   | Regulator   | Related Law   |
|------|---|---|---|
| 1    | <a href="#">The Bank of Thailand</a>                                | Ministry of Finance   | Bank of Thailand Act B.E.2485 and amended                               |
| 2    | Commercial Banks  | Bank of Thailand  | Financial Institutions Businesses Act B.E.2551                          |
| 3    | Foreign Bank branches   |   |   |
| 4    | Subsidiary  |   |   |
| 5    | Retail Banks  |   |   |
| 6    | Finance Companies   | Bank of Thailand  | Financial Institutions Businesses Act B.E.2551                          |
| 7    | Credit Foncier Companies  |   |   |
| 8    | The Government Savings Bank   | Ministry of Finance/<br>Bank of Thailand                          | Government Savings Bank Act, B.E.2489                                   |
| 9    | The Bank for Agriculture and Agricultural Cooperatives (BAAC)       | Ministry of Finance/<br>Bank of Thailand                          | The Bank for Agriculture and Agricultural Cooperatives Act, B.E.2509    |
| 10   | The Government Housing Bank   | Ministry of Finance/<br>Bank of Thailand                          | Government Housing Bank Act, B.E.2496                                   |
| 11   | The Export - Import Bank of Thailand (EXIM-Bank)                    | Ministry of Finance/<br>Bank of Thailand                          | The Export-Import Bank of Thailand Act, B.E.2536                        |
| 12   | Small and Medium Enterprise Development Bank of Thailand (SME Bank) | Ministry of Finance/<br>Bank of Thailand/<br>Ministry of Industry | Small and Medium Enterprise Development Bank of Thailand Act, B.E. 2545 |
| 13   | Islamic Bank of Thailand  | Ministry of Finance/<br>Bank of Thailand                          | Islamic Bank of Thailand Act, B.E.2545                                  |
| 14   | The Small Industry Credit Guarantee Corporation (SICGC)             | Ministry of Finance/<br>Ministry of Industry                      | The Small Industry Credit Guarantee Corporation Act, B.E. 2534          |
| 15   | Secondary Mortgage Corporation (SMC)                                | Ministry of Finance/<br>Bank of Thailand                          | Emergency Decree on Secondary Mortgage Corporation B.E.2540             |
| Item |   | Regulator   | Related Law   |

|    |  |   |  |
|----|--|---|--|
| 16 | Thai Asset Management Corporation (TAMC) | Ministry of Finance   | Emergency Decree on the Thai Asset Management Corporation B.E.2544 |
| 17 | Asset Management Companies               | Ministry of Finance/<br>Bank of Thailand  | Emergency Decree on the Asset Management Company B.E.2541          |
| 18 | Money Changers                           | Ministry of Finance/<br>Bank of Thailand  | Exchange Control Act, B.E.2485                                     |
| 19 | Securities Companies                     | Securities and Exchange Commission  | The Securities and Exchange Act, B.E.2535                          |
| 20 | Mutual Fund Management Companies         |   |  |
| 21 | Life Insurance Companies                 | Ministry of Finance/<br>Office of Insurance Commission  | Life Insurance Act, B.E.2535 and amended                           |
| 22 | Agricultural Cooperatives                | The Department of Cooperatives Promotion and the Department of Cooperative Auditing, Ministry of Agriculture and Cooperatives | Cooperative Act, B.E.2511 and amended                              |
| 23 | Savings Cooperatives                     |   |  |
| 24 | Provident Fund                           | Securities and Exchange Commission  | Provident Fund Act, B.E. 2530                                      |
| 25 | Social Security Fund                     | Ministry of Labour  | Social Security Act, B.E.2533                                      |
| 26 | Pawnshops                                | Ministry of Interior  | Pawn-shop Act, B.E.2505 and amended                                |