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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
Washington, D.C. 20523

PROJECT PAPER

Proposal and Recommendations
For the Review of the
Development Loan Committee

KOREA - HOUSING INVESTMENT GUARANTY

AID-DLC/P-2267

UNCLASSIFIED

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

UNCLASSIFIED

AED-DLC/P-2267

September 22, 1977

MEMORANDUM FOR THE DEVELOPMENT LOAN COMMITTEE

SUBJECT: Korea - Housing Investment Guaranty

Attached for your review are the recommendations for authorization of the issuance of guaranties pursuant to Section 221 of the FAA of not to exceed Forty Million United States Dollars (\$40,000,000) in face amount, assuring against losses of not to exceed one hundred per centum (100%) of loan investment and interest with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in the Republic of Korea.

This loan is scheduled for consideration by the Development Loan Staff Committee on Tuesday, September 27, 1977, at 2:30 p.m., in Room 5951 New State. If you are a voting member, a poll sheet has been enclosed for your response.

Development Loan Committee
Office of Development Program
Review and Evaluation

Attachments:

Summary and Recommendations
Project Analysis
Annexes A - N

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AGENCY FOR INTERNATIONAL DEVELOPMENT PROJECT PAPER FACESHEET		1. TRANSACTION CODE <input checked="" type="checkbox"/> A ADD <input type="checkbox"/> C CHANGE <input type="checkbox"/> D DELETE	PP 2. DOCUMENT CODE 3
3. COUNTRY/ENTITY Korea		4. DOCUMENT REVISION NUMBER <input type="checkbox"/>	
5. PROJECT NUMBER (7 digits) <input type="text" value="489-HG-007"/>	6. BUREAU/OFFICE A. SYMBOL Asia B. CODE <input type="text" value="09"/>	7. PROJECT TITLE (Maximum 40 characters) <input type="text" value="Housing Investment Guaranty"/>	
8. ESTIMATED FY OF PROJECT COMPLETION FY <input type="text" value=""/> <input type="text" value=""/>		9. ESTIMATED DATE OF OBLIGATION A. INITIAL FY <input type="text" value="77"/> B. QUARTER <input type="checkbox"/> 4-FY 77 <input type="checkbox"/> 1-FY 78 C. FINAL FY <input type="text" value="78"/> (Enter 1, 2, 3, or 4)	

10. ESTIMATED COSTS (\$000 OR EQUIVALENT \$) -						
A. FUNDING SOURCE	FIRST FY			LIFE OF PROJECT		
	B. FX	C. L/C	D. TOTAL	E. FX	F. L/C	G. TOTAL
AID APPROPRIATED TOTAL						
(GRANT)						
(LOAN)						
OTHER U.S. 1. Housing Guaranty		15,000	15,000		40,000	40,000
2.						
HOST COUNTRY		10,000	10,000		20,000	20,000
OTHER DONOR(S)						
TOTALS		25,000	25,000		60,000	60,000

11. PROPOSED BUDGET APPROPRIATED FUNDS (\$000)										
A. APPROPRIATION	B. PRIMARY PURPOSE CODE	PRIMARY TECH. CODE		E. 1ST FY		H. 2ND FY		K. 3RD FY		
		C. GRANT	D. LOAN	F. GRANT	G. LOAN	I. GRANT	J. LOAN	L. GRANT	M. LOAN	
(1)										
(2)		Non-Appropriated Funds								
(3)										
(4)										
TOTALS										

A. APPROPRIATION	N. 4TH FY		O. 5TH FY		LIFE OF PROJECT		12. IN-DEPTH EVALUATION SCHEDULED
	Q. GRANT	R. LOAN	S. GRANT	T. LOAN	V. GRANT	U. LOAN	
(1)							MM DD YY 03 77
(2)							
(3)							
(4)							
TOTALS							

13. DATA CHANGE INDICATOR. WERE CHANGES MADE IN THE PID FACESHEET DATA, BLOCKS 12, 13, 14, OR 15 OR IN PRP FACESHEET DATA, BLOCK 12? IF YES, ATTACH CHANGED PID FACESHEET.

1 NO
 2 YES

14. ORIGINATING OFFICE CLEARANCE SIGNATURE: <i>David McVoy by Hestley</i> TITLE: David McVoy, Assistant Director Operations Div. Office of Housing		15. DATE DOCUMENT RECEIVED IN AID # OR FOR AID # OCCU- RRENTS, DATE OF DISTRIBUTION DATE SIGNED: MM DD YY <input type="text" value=""/> <input type="text" value=""/> <input type="text" value=""/>
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PREFACE TO FY 77/78 KOREA PROJECT PAPER

The attached project paper for a Housing Investment Guaranty Program for Korea has been revised pursuant to Asia Bureau and SER/H review from a proposed level of \$25 million^{THIG} in FY 77 to a new level of \$15 million and a corresponding elimination of the 13 pyong size apartment units in cities outside of Seoul. Income limitations will be established for all units in both the secondary cities and Seoul. The upper limit of the target income group for the 13 pyong unit in Seoul is the 30th percentile.

Time has not permitted the full editing of the attached project paper to reflect these changes. Therefore, in every instance where \$25 million is mentioned for the FY 77 program, the reader should be aware that the program has been reduced to \$15 million.

NOTES ON QUANTITIES AND ACRONYMS

A. Dwelling Unit Areas

1 pyong	=	35.5 sq. ft. (3M2)
7.5 "	=	265 "
8 "	=	284 "
10 "	=	355 "
13 "	=	460 "
15 "	=	532 "
22 "	=	781 "

B. Currency Equivalent

483 Won	=	U.S. \$1.00
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C. Acronyms

ROKG	Republic of Korea Government
KNHC	Korean National Housing Corporation
KHB	Korea Housing Bank
EPB	Economic Planning Board
MOF	Ministry of Finance
MOC	Ministry of Construction

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- E. Plans of Units - Phase A
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I. SUMMARY AND RECOMMENDATIONS *

A. Face Sheet

B. Recommendations

It is recommended that a \$40 million Housing Guaranty Program be approved for fiscal years 1977 and 1978 and that an initial \$15,000,000 Housing Guaranty be authorized for FY 77, with the following proposed terms to be negotiated by the Borrower and the U.S. Lendor:

1. Maturity: Up to thirty years, including a grace period of up to ten years.
2. Interest: Prevailing U.S. capital market rate, not to exceed the FHA rate by more than .5%.

Non-Negotiable terms include:

1. Host government guaranty to AID
2. Interest and principal repayable in U.S. dollars.
3. AID Guaranty Fee of .5% on the outstanding balance.

Authorization of the 1978 HIG loan will be contingent upon an analysis and report acceptable to the Asia Bureau of the progress made by the ROKG and Korea Housing Bank in implementation of the 1977 housing financed policy decisions and program and the development of operating policy and procedures by the KHB to more effectively provide mortgage financing to lower income families.

C. Description of the Project

The 1977-78 Housing Guaranty Program has been developed as a two stage effort designed to assist the ROKG implement basic changes in its housing finance policy in order to provide increased access of lower income families to long term mortgage financing and to assist the ROKG develop the institutional framework for a housing finance system capable of meeting increasingly greater demands for housing finance. Subordinate purposes are to continue the work previously undertaken by the government in the development of national housing policy; support the KNHC program during the interim period (1977-78) while a domestic financial system capable of meeting the KNHC program needs is implemented; demonstrate the utility of small expandable row house as a further mechanism for providing lower-income housing and; to support the government plans and programs for development of regional industrialization as an alternative to the continued growth of Seoul.

*Only this page and the Project Paper Facesheet have been revised to reflect the Asia Project Advisory Committee (APAC) decision to reduce the FY 1977 HIG program in Korea to \$15,000,000; the rest of this PP is the original version considered by the APAC.

The initiation of housing finance policy changes negotiated as part of the 1977 program are expected to reduce the existing constraint of limited ROKG financial resources available for housing, and expand the private sector savings for investment in the shelter sector. The creation of a more efficient and expanded housing finance system will remove the major remaining barrier to the expansion of shelter services to lower-income urban families.

In order to achieve the housing finance objective, the ROKG is initiating changes in savings deposit rates and mortgage lending rates to increase housing finance resources and to more realistically reflect the cost of such funds in its lending. Additionally, the principal housing finance institution, the Korea Housing Bank (KHB) is instituting policy and procedural changes designed to encourage less expensive housing and direct increasing levels of its lending toward lower income groups.

As the first step in developing a more efficient housing finance system, the ROKG is taking steps to expand the domestic supply of housing capital and spread the available capital to meet the housing needs of a greater number of its citizens.

Section II.A.3 of this paper presents a comprehensive analysis of the overall housing finance situation in Korea and the ROKG policy regarding change in the existing system. In summary these changes are:

- To increase the deposit rate for individual savings in the KHB.
- To establish a unified mortgage rate for loans made with KHB savings and national housing funds.
- To increase the mortgage lending rate for loans made with national housing (bond) funds from 8% to a rate of 12 to 15%.
- To expand the capitalization of both the KNHC and the KHB.
- To expand the geographic coverage of the KHB.
- To reduce the subsidy element in the public housing program through higher mortgage interest rates.

The ROKG housing finance policy decisions are a major step in the direction of developing an effective housing finance system and are clearly steps which have required a significant political will and commitment.

The KNHC has been the principal institution in Korea responsible for the housing finance and policy changes which are now taking place. Continued direct support to the KNHC program in 1977 is considered essential to the continued evolution and development of Korea's housing finance policy and to avoid a curtailment of the KNHC program while the new finance policies are implemented and the KHB develops the capacity to mobilize increased savings and manage an expanded and broader operation.

In support of the housing finance policy decisions of the ROKG and the continued development of the KNHC, the proceeds of the 1977 HIG loan will be loaned by the KNHC to individual families for long-term mortgage financing of small expandable row houses and apartments constructed by the Korea National

Housing Corporation. Loans will be made on terms reflecting the housing finance policy decisions made by the ROKG in the negotiations of the 1977 HIG. Beneficiaries of this financing will be between the 20% and 50% of the urban income distribution.

The KNHC projects to be financed with the 1977 HIG are located in sixteen cities through Korea. A total of 25 separate projects are involved. The selection of these locations has been made in support of the ROKG plans for regional development and development of alternative growths polls. Site locations have also considered the severity of the urban housing shortage throughout Korea and therefore projects are to be undertaken in Seoul notwithstanding the objective of supporting regional growth and development plans.

A detailed discussion of the KNHC projects is presented in Section II B and III A of this paper. The principal innovative feature of the KNHC projects is the introduction of small (8 pyong) expandable row houses in secondary cities which have been designed to capture lower unit construction costs and permit expansion by the homeowner at a later date employing either self-help or contract services. The balance of the KNHC projects will be 8, 10 and 13 pyong apartments which continue the pattern established in the 1976 HIG loan and will reinforce the market for the smaller, i.e. 8 pyong units in Seoul as well as introduce the small apartment unit to secondary cities.

Resident and short-term technical assistance will be provided under the 1977 guaranteed loan to help the KHB restructure its operation to implement the finance policy and procedural changes which have been negotiated and to undertake detailed study of additional elements of its housing policy and housing finance system. Related to this effort, short-term training of KNHC, KHB and MOC staff will be provided in the areas of housing policy, housing finance, and project design and evaluation.

The 1978 HIG will be loaned directly to the KHB to support an expanded lending program reflecting the technical assistance provided under the 1977 loan to include home improvement lending as well as loans to credit unions and cooperative organizations.

The KHB does not presently have the necessary authority to borrow under the HIG program. Such authority will be obtained from the Korean National Assembly in November 1977.

D. Summary of Findings

The proposed projects, as designed, will support the ROKG effort to develop its housing finance system to make it more responsive to the needs of lower-income families and capable of mobilizing more financial resources to meet the demand at all levels of its society for improved shelter.

The projects are also designed to support the ROKG in further identification, analyses and formulation of national housing finance policies and procedures as a continuation of the initial efforts of the government to

more effectively use its existing housing finance resources and develop the additional resources needed to meet the overall housing demand.

The increased availability of long-term financing for lower-cost shelter will have a favorable impact on the housing needs and standard of living of lower-income families.

The Korea National Housing Corporation has demonstrated its ability to effectively plan and produce increasingly larger volumes of low-income housing annually and its commitment to development of lower cost minimum standard units.

The Korea Housing Bank is the principal government financial institution for the housing sector. It has not, however, been a major factor in addressing the shelter needs of lower-income families due to the limited resources at its disposal, restrictive government policies regarding saving deposit and mortgage lending rates, and a conservative banking approach to the problems of shelter. With the housing finance policy changes negotiated with the government, the opportunity now exists to develop the KHB into a major housing finance institution, capable of providing financing for lower-income families and complementing the Korea National Housing Corporation as the principal producer of lower-income public housing.

AID has had no experience with the KHB under its HIG program and the capacity and effectiveness of the KHB to serve lower-income families will be closely monitored. Technical assistance will be provided to the Bank under the 1977 project in the areas of housing bank policies and procedures, savings mobilization and credit review of applicants.

E. Project Issues

No project issues were raised at the PID review of this project.

II. PROJECT BACKGROUND AND DETAILED DESCRIPTION

A. Background

1. Housing in Korea

Approximately 50% of Korea's population or 17.5 million people lived in 35 urban areas as of October 1976. Ten years earlier the urban population was only 9.8 million. During the period 1960 to 1970, the average population growth rate for these urban areas was 8%. During the ensuing five years the growth rate declined to an average of 4.7% per year, yet the urban population grew from 13.5 million to 16.7 million. A significant proportion of these people have been unable to obtain their own homes and have resorted to renting rooms or living in substandard or illegal housing.

The origin of the shelter problem in Korea began with the movement of repatriated Koreans from Japan after the end of the Second World War. Additional refugees flowed south as the Soviet Union took over administration

of the northern portion of Korea from Japan. The total influx of refugees during the period 1945 and 1946 is estimated to be 4 million persons. Still additional refugees entered the southern part of the peninsula during the Korean War. During this period no public housing programs existed and the influx of homeless found shelter in either spontaneous squatter communities, primarily in Seoul and Pusan, or in renting small rooms in existing homes.

The next major influx to the urban areas coincided with the rapid industrial expansion of Seoul, Pusan and Inchon during the 1960's with the consequent attraction of significant rural families to Seoul and the two other cities. During this same period there was no effective housing program for either the middle- or low-income family. The total government expenditures for public housing during the period 1962 to 1971 was only \$518 million, less the 2.45% of the GNP for this period. As a result, the housing shortage in the urban areas increased by an estimated 466,000 units between 1960 and 1967.

With the development of the third five-year plan in 1972, the government at last indicated its awareness of the housing problem and its intention to address housing as a principal means of improving the standard of living of its citizens. The housing targets of the third five-year plan were to construct 760,531 new housing units with an investment of \$3,234 million (Won 1,562,311.9 million). In 1972, the government passed the Housing Construction and Promotion Law which was aimed at formulating a housing construction plan for low-income groups, raising housing funds, maintaining housing stock and producing housing materials on a large scale. Also in 1972, the government passed the Extraordinary Law for Housing Improvement which authorized local governments to rehabilitate public land belonging to various central government ministries.

In 1972, the ROKG also requested AID to undertake a Shelter Sector Study. That study was completed and a HIG loan negotiated in 1973.

The objective of the first HIG project was to demonstrate the feasibility of high density condominium apartments as a partial solution to Korea's urban housing problem in general and in particular, as a means of addressing the problem of high cost urban land.

Subsequent HIG projects were authorized in 1974, 1975 and 1976. With each new project AID's objectives expanded, reflecting the redefinition of AID's Shelter Policy focus upon the urban poor, the development of national housing policy, institutional development and minimum shelter projects. The evolution of the AID program also reflected the rapport and confidence which developed between AID and the Korean housing agencies with each succeeding project. Undeniably, the ability of AID through its Housing Guaranty Program to provide sizable levels of financing which the government needed to carry out its programs was a major factor in the willingness of the ROKG housing agencies to initiate efforts along the lines proposed by AID (e.g. development of a national housing policy, introduction of progressively smaller and relatively less costly units,

introduction of new approaches to the squatter communities first in Seoul and subsequently on a national scale, and the introduction in 1976 of the 7.5 pyong expandable unit, the smallest housing unit produced by the public housing program).

At the time AID authorized its first HIG project in 1973, the KHC produced 5,109 units primarily for the middle-income market. In contrast, the KHC program in 1976 built 19,043 units and had an additional 18,363 units partially completed (a 273% increase in its production capacity). This level of production is comparable to that of the Singapore Housing Authority which produced 25,000 units in 1975. Clearly Korea has a much larger population than Singapore, but the accomplishment is nevertheless outstanding and finds no comparison in any other developing country. Equally important, the focus of the KNHC program shifted from larger units designed for middle-income families in 1972 to the production of 7, 10, 13 and 15 pyong units affordable by lower income families in the 1976 program.

The fourth five-year plan for the period 1977-81 published in December, 1976 identifies the basic goals of the government's plan of growth, efficiency and equity. Specifically, the plan states it is the government's intention "to build an economic structure for self-sustaining growth, to increase equity in income distribution through social development and to improve technology and efficiency of the economy. Fundamental to the achievement of these goals is the preservation of national security and the pursuit of an improved standard of living."¹ Senior ROKG spokesmen, most notable the Deputy Prime Minister, have stated that the improvement of housing is to be one of the key components of the government efforts toward improved standards of living.

It is also now recognized by the ROKG that the achievement of its housing objectives are dependent upon the development of an adequate housing finance system which effectively utilizes existing housing finance resources and will be capable of mobilization of increasing levels of financial resources.

The fourth five-year plan has set a goal for the construction of 1.3 million units and the reduction of the housing shortage from 25% in 1975 to 20% in 1981. To achieve these goals, the government estimates a total investment requirement of Won 2,640,500,000,000 (\$7,469,000,000 at \$1 = 483). Public sector goals are to construct 512,000 units estimated to require Won 600,300,000,000 (\$1,242,900,000) while the private sector is expected to supply 818,000 units at an estimated investment of Won 2,040,200,000,000 (\$4,224,100,000).

¹The Fourth Five-Year Economic Development Plan, 1977-81, Government of the Republic of Korea, December, 1976.

The public sector program is approximately 20% of the total number of units and 23% of the total investment projected for total housing sector during the plan period. The fourth five-year plan projection represents a 3.84% allocation of GNP to the housing sector.

Public sector housing programs are defined by the National Housing Policy as directed at lower-income homeless households. The private sector with government support through various tax incentives is expected to serve the middle- and upper-income groups. Within the public sector the principal institutions are the Korea National Housing Corporation and the Korea Housing Bank. The KNHC is basically a constructor of housing but has acted as a financing institution as well, using funds from the central government budget, allocations of national housing funds (i.e. housing bonds and housing lotteries) and HIG loans to extend long-term mortgage credit to homeowners. The Korea Housing Bank established in 1969 is the only government institution designed solely for the purpose of providing mortgage financing.

An analysis of the KHB operation is presented in Section II A 3 of this paper. In summary, the KHB has been serving both the middle-income market as well as the lower-income market which it was originally designed to serve. The Bank operates on funds from government budgetary appropriation, proceeds from sale of government housing bonds and lotteries, sale of its own bonds, and savings deposited by individuals. The major constraint upon the Bank expansion is the high cost of funds in the open market, restrictive government interest rate and mortgage lending policies, the disparity between the financial capacity of lower income groups and open market interest rates and a generally conservative banking approach to mortgage leveling.

Additional institution in the public housing sector are the municipal governments which construct housing on a contractual basis using central government allocation of national housing funds (i.e. housing bonds and housing lotteries).

The final major public institution is the Ministry of Construction which is responsible for establishing and monitoring housing policy and the annual government housing construction program to be carried out by the KNHC, KHB and municipal government.

With the development of the KNHC into an effective public housing institution capable of producing significant annual levels of new housing, the major constraint on the public housing sector in Korea is the inadequate supply of financing to enable families, particularly lower income families, to purchase housing. As first mentioned, the purpose of the proposed 1977 HIG project is to encourage and assist the ROKG to initiate housing finance policy, procedural and institutional changes, which will have the effect of reducing the housing finance constraint and providing improved shelter to lower-income families in particular and all income groups in general.

2. AID Project Assistance

a. Completed Housing Projects

1) 1973-1976 Projects

From 1973 to the present AID HIG-financed projects have resulted in the construction of 19,230 units to the benefit of over 100,000 people. The clear trend over this four-year period has been a progression from fairly large (22 pyong-780 sq. ft.) units built in 1973 for middle class families to moderate (13 and 15 pyong-461 and 532 sq. ft.) units and, most recently, very small units (7 1/2 and 10 pyong-266 and 355 sq. ft.) for low-income families below the second decile. The four loans for apartment units, one in each year, have gone to the KNHC in amounts of 10, 20, 25 and 15 million dollars, respectively. The number of units financed has ranged from 1490 the first year to 9200 in 1975, averaging 4775 per year for the four years. The price charged per unit has fallen from approximately \$9,000 for the 1973 larger apartments to less than half this amount (\$4475) for the small recently built 7 1/2 pyong units.

AID has had significant and positive impact with its HIG program in Korea to date. In a case study of this program from its inception in Korea in 1971 to the present, PADCO highlighted certain specific accomplishments that may be attributed to AID's presence in the housing field in Korea as follows:

- a) A dramatic reduction in the cost of units built over the lifetime of the HG program, changing the entire character of the KNHC program from a middle-class program to one benefitting urban low-income families.
- b) A demonstration of the feasibility of condominium apartments as a viable alternative to traditional single-family houses in Korea. With the reduction in costs mentioned above this has allowed persons previously excluded from the housing market to become homeowners in forms of construction adapted to the very high urban densities of Korea.
- c) A gradual but marked and highly significant move away from specific projects, which in themselves can never resolve the enormous problems of shelter in Korea, as is true elsewhere, to policy formulation, specifically in the critical housing finance area. This evolution has not come out of any particular component of a loan agreement but rather from the constant and effective dialogue and interaction between AID and the Korean institutions responsible for the execution and development of housing policy.

d) A thorough and conscientious effort at monitoring and evaluation by KNHC of its own programs, initiated at the request of AID but proceeding very effectively out of a commitment on the part of KNHC to the evaluation concept, which it is now applying to non-AID assisted projects as well as these supported by HIG loans. Through this newly devised evaluation system, it is believed that the KNHC can gain better understanding of the receptivity accorded its housing among the people affected. From this greater awareness should come a finely-tuned program responsive to the expressed needs and desires of the Korean population.

2) Evaluation

In February, 1977 the KNHC conducted an ex post evaluation of its HIG supported apartment units. A random sample of 749 units was selected representing apartments of every size built under the Program; 7 1/2, 10, 13, 15, and 22 pyongs, from each of the four projects, one each year, 1973-1976 in nine Korean cities. The purpose of the survey was to gain some understanding of what living in the apartments meant to the residents compared to their previous place of residence. Generally, the picture which emerges from this study is of a stable population which, despite certain reservations regarding the physical design and maintenance of their apartment buildings and surrounding areas, felt a number of major improvements in their living conditions which can be directly attributed to their residence in the apartments.

Specifically; the average household monthly income in current prices for all HIG apartment dwellers surveyed including the 1973 middle-income project was found as of February 1977 to be 87,937 Won or 12% under the EPB urban average for the same time period (i.e. 98,420 Won).

The average monthly family income excluding the 1973 project was W 68,186 or 44% below the EPB average. In terms of the 1976 HIG projects the average monthly income of all surveyed families purchasing the 7 1/2 pyong unit was W 49,576 corresponding to the 3.3 decile. For the 10 and 13 pyong units the average monthly incomes of all purchasers were W 61,149 and W 77,712 respectively which correspond to the 4.1 and 5.1 decile of the December 1976 estimated urban income distribution.

The February 1977 survey reveals that the average monthly family income at current prices of all surveyed purchasers of HIG financed units has declined from W 81,364 for the 1974 project to W 75,837 for the 1975 project to W 67,438 for the 1976 project. The estimated all city median family income as of December 1976 was W 73,000 per month.

Educational level of the head of household is high, with 95.3 percent having finished high school or above, and unemployment is low, at 3.5 percent. Only 7.8 percent of the sample had any debts beyond the mortgage payment to KNHC.

The general impression one gets from this evaluation is of a group of lower-income families who definitely feel their lot has improved as a consequence of their move to the apartments. To cite a few of the most indicative responses: over a third of the residents (33.4%) felt their children's health had improved after moving to the apartments, close to three quarters (71.3%) of the population sampled felt that the air around their apartment was better than where they had lived previously (i.e. generally, dense center-city neighborhoods); two thirds (67.6%) of the residents felt safer as regards to crime and vandalism than in the part of the city they had lived in previously; and while almost all (92.3%) of the residents stated they now lived near recreational facilities less than half (47.8%) were so favorably situated in their previous place of residence. Perhaps the most significant finding attesting to the success of the AID HIG-financed apartment units was the almost unanimous (95.3%) feeling on the part of the residents sampled that living in the apartment community would help their children have a better future.

b. Current Projects

1) Squatter Improvement Program - Seoul City (Authorized FY 1975 - \$10 million)

a. Status: The initial improvement project is being carried out in an area on the north bank of the Han River known as Oksoo No. 3. The area covers 29,600 pyong and contains 536 housing units accommodating 1,200 households. Initial studies were undertaken in 1976 and the project design completed in September.

Infrastructure improvements in the pilot project began in October 1976 and were completed in June 1977. The improvements consist of installation of water and sewer lines and minimum widening of roads to permit access of emergency vehicles and pump trucks for removal of human waste, construction of a community center and repair and improvement of walkways throughout the area. This effort has already brought a significant improvement in the neighborhood. The loan program for land purchase, home improvement and home replacement is now underway and should be completed this Fall. Land prices and financing terms and conditions have been developed using stepped interest rates in order to assure affordability by no less than 90 percent of the area residents. All residents will be given the opportunity to purchase land and to improve their existing homes.

The City has agreed, as part of the HIG program, that existing legal constraints on minimum land size and building codes will not be applied within the improvement area and any family wishing to improve their existing dwelling will be eligible for a home improvement loan. The procedures and administrative framework to implement projects have been developed and the City is ready to move into larger projects. Projects totaling \$2.5 million with improvement of 2-3,000 houses are scheduled for this year.

Projects selected for this year include an expansion of the Oksoo project to encompass two adjacent parts of the larger community and will begin to focus on the needs of the whole area as well as neighborhood improvement. Planning has also begun on a group of squatter areas in the Southeast part of the City across the Han River for this year's program. These areas, Machun No. 1, 2, and 3, include some of the worst housing and lowest income

families in the City. Some self-help projects have already been undertaken in these areas, but parts have few existing services and many of the houses are earthblock structures with makeshift roofing. One of the areas includes squatters occupying private land which the City plans to buy and resell to the occupants. The legal areas surrounding the selected projects are also in need of development, and a plan for the whole area is being included in studies for the selected projects. Other projects in the same area will be scheduled for next year and when complete, all of the squatter areas in that part of the City will have been legalized and improved.

b. Evaluation System: Seoul City has submitted a comprehensive evaluation plan for Oksoo No. 3 and the additional project sites. The original base line survey for Oksoo-3 was undertaken by Professor Kim, Hae-Dong of the Seoul National University in 1975. At present the Housing Bureau of Seoul City is in the process of contracting its evaluation work out to the Department of Urban Studies of Seoul City College. For the remainder of this year, there are four major activities planned for the evaluation of Seoul City's upgrading program:

- (1) Base-line surveys of new squatter communities scheduled for upgrading - August-September;
- (2) Case studies of families taking home improvement and replacement loans - October;
- (3) Follow-up survey in Oksoo-3, to be compared to original base-line survey of 1975 - November;
- (4) Institutional self-evaluation, in August and December.

2) Squatter Improvement Program - Secondary Cities (Authorized FY 1976 - \$10 million)

a. Current Status: The Korea National Housing Corporation has completed detailed socio-economic and physical analyses of eight squatter areas in Masan, Iri, and Daegu. One initial project in each city has been selected and detailed plans are now being prepared. KNHC plans to negotiate the Loan and begin implementation of the Masan and Iri projects in October. A Minimal Shelter Unit has been established within the KNHC, to develop improvement projects (and eventually other low income schemes). This unit has been gaining experience rapidly and has established

working relationships with the secondary cities. The administrative structure for implementation is being designed along with the project plans.

Projects are also being discussed with the City of Busan, Inchon and Junju, which have expressed their interest in developing programs. Studies will begin when plans for Masan and Iri are completed.

b. Evaluation System: In February and March of this year, base-line surveys were conducted with 934 families in eight low-income communities of three secondary cities: Taegu, Iri and Masan. Among the many findings of this survey was a confirmation of the need for this program, in the people's own assessment. When asked what were the major problems with their community, the residents interviewed gave the first three in order of priority (out of a list of 19) as narrow lanes, poor or absent sewerage system, and deficient open spaces and playgrounds, all targets for improvement in the upgrading program. Additional base-line surveys will be conducted in Busan later this year, or during the early months of next year.

3. Aid Policy Assistance

a. Developing Housing Finance Policy

In September 1976 AID advised the ROKG in response to their enquiries that a HIG in FY 77 would only be considered as part of a program to develop a housing finance system which would more effectively utilize existing financial resources and would be capable of generating increased domestic investment resources for the housing sector.

Within this context, AID in November 1976 provided a consultant on housing finance, Dr. Richard Pratt, to undertake a study of housing finance in Korea. Dr. Pratt's study was presented to the ROKG in January 1977.

The ROKG Ministry of Finance, Ministry of Construction and Economic Plan Bureau reviewed the consultant's report and met, first at an inter-ministerial directors level and subsequently the Council of Economic Ministers met to decide what the government's plans, policies and programs will be in the area of housing finance.

On May 27 the Korean Ministry of Construction submitted to AID a set of policy decisions in response to the Housing Finance Report prepared by Dr. Richard Pratt. These proposals were subsequently reviewed by AID with assistance of Dr. Pratt. In July, 1977, the Korean National Assembly approved the proposed changes in housing finance policy and the ROKG is now in the process of implementing the new policies.

The Pratt report identified the following basic problem areas in the Korean Housing Finance system:

1) Major Problems in the Housing Finance Sector

a. Korean families whose needs and economic circumstances are similar and who are borrowing for identical purposes, find themselves paying substantially different interest rates for loans. In the mortgage lending field, interest rates on loans were tied to the source of funds from which the loans were made. Loans made from lottery funds were made at four percent, while those made from national housing funds were made at eight percent, and those made from banking funds were made at 14 percent.

b. Market interest rates for high quality firms in the Korea economy are in the range of 15 to 25 percent, while government subsidized rates are much lower. The interest rate policies result in massive subsidies which are not allocated on a rational basis.

c. A subsidy given through the interest rate causes a problem in a capital short but rapidly growing country like Korea. The amount of subsidy is directly proportionate to the size of the loan, and each credit recipient of a low interest rate loan has an incentive to borrow the maximum amount of funds. This results in a tendency for the extravagant use of capital, rather than its careful conservation as would be indicated by economic circumstances.

d. Commercial banks do not provide an effective source of mortgage credit, both because of the traditional aversion to long term mortgage lending and because interest rates are higher on shorter term commercial loans. In addition to the general problems associated with economic and interest rate policies, the AID analysis identified a number of problems in the primary mortgage lending institution in Korea. Certain structural and operational problems in the Korea Housing Bank make it more difficult for this institution to become an effective provider of mortgage finance for a broad spectrum of the nation's population. Some of the areas of concern found in the Korea Housing Bank were:

- (1) The Korea Housing Bank offers a confusing and voluminous array of savings' accounts, making management of the savings' function difficult, and greatly complicating the problem of attracting and promoting savings accounts.
- (2) The Korea Housing Bank has had difficulty attracting deposits in recent years, as a result of the low market interest rates which are offered by the institution.
- (3) The national housing bonds, which are compulsory purchase bonds at low interest rates, provide a vulnerable source of funds for the Korea Housing Bank.
- (4) The Bank's practice of making below market mortgage loans at interest rates from four to eight percent helped assure a chronic shortage of mortgage funds.
- (5) The Korea Housing Bank offers a conglomeration of mortgage loans of various terms and interest rates.
- (6) The Bank is currently making below market interest rate loans of 15 to 25 years maturity. The Bank does not have an obvious source of funds to maintain the required subsidies over the extended maturities.

(7) The problem of establishing a stable self-supporting housing finance system in Korea is exacerbated by the present practice of the Korea Housing Bank, in making 15, 20, and 25-year mortgage loans on a fixed interest basis. The long term mortgage, plus the high rate of inflation have combined to sharply reduce the rate of recovery of financial resources from mortgage borrowers.

2) Recommendations for Change

In response to the above problem areas, the Pratt report recommends the ROKG consider the following actions:

a. The government should consider deregulation of at least limited categories of deposits and loans, so that financial institutions may effectively compete for private funds which are presently not being captured within the formal financial system.

b. The Ministry of Finance in conjunction with other entities within the government should seek to develop a standardized mortgage instrument, which could be used by all types of financial institutions willing to make long term mortgage loans.

c. The government should conduct a study of the structure and operations of the Korea Housing Bank, to determine if it can effectively provide mortgage credit within the nation and should make such adjustments in its operations, branches, and structure, as appear necessary.

d. The Housing Bank's savings accounts should be simplified, in which a basic savings deposit pays interest from date of deposit to date of withdrawal, and implemented at a relatively competitive market interest rate.

e. The Korea Housing Bank should stop the practice of tying specific sources of funds to specific loans. Such an adjustment would reduce the irrational allocation of credit, resulting in substantial inequity in the way various borrowers are treated who are in similar economic and social circumstances.

f. The Korea Housing Bank should revise its interest rates upward to the level which will generally eliminate the major subsidies from the interest rate.

Such an adjustment in interest rates would increase the housing capital available to the people of Korea, stop an irrational redistribution of income, and provide operating funds for the Housing Bank.

g. The Korea Housing Bank should consider implementing a variable payment or variable rate mortgage, which can be adjusted to the varying levels of inflation and interest rates which may exist within the economy of Korea. As the Korean economy matures, the degree of capital shortage may tend to decrease and interest rates will fall. In this event, the present high level of required interest rates in the economy can be adjusted downward.

3) Korea's Response to Recommendations

The Government of Korea responded in a most positive manner to the suggestions made by AID and its consultant. Substantial changes have been or will be implemented, both in the Ministry of Construction and Korea Housing Bank, to eliminate many of the problems discussed in the AID report. The Government of Korea responded to AID's suggestions with a document entitled, "Plan for Improving the Housing Finance System," issued by the Ministry of Finance. The Government of Korea stated, "Professor Pratt's report relating to the Korea housing finance system improvement has pointed out basic problems which have been implicated in housing finance policy and its system...It is firmly believed that several recommendations involved in this report should be an important reference in the development of better housing finance policy in the future." Specific responses by the Government of Korea to the housing policies' suggestions were as follows:

a. Interest Rate Policy

The Government intends to pursue a long term policy, which will result in interest in the Government-controlled sector moving closer to those in the open market.

b. Specific Housing Policy Changes

The following housing policy decisions have been adopted:

- (1) To establish a uniform interest rate for all public sector mortgage financing, regardless of the unit size or source of mortgage

funds. This is a direct response to two of the suggestions made in the AID-sponsored report: first, that the different interest rates charged to different individuals be consolidated into a single rate; and second, that interest rates be increased to eliminate the subsidy element as much as possible. In July 1977, the Korean National Assembly approved the proposed housing interest rate policy which will be implemented by presidential decree by January 1, 1978. Earlier implementation of this policy was considered by the ROKG and the National Assembly to be undesirable due to the scheduled introduction this year of a new value added tax and the administrative problems implementation of this new tax would create.

(2) To establish a contract savings system under which participants must deposit Won (W) 500,000 within a six-month period, and in return will receive priority in the purchase of national housing. This policy should be effective in developing funds specifically available for housing, and is presently in operation at the Korea Housing Bank.

(3) To establish a short-term deposit at the Korea Housing Bank of one to three months, paying preferential insured interest rates of 10 to 15 percent. As of July 1, 1977, such an account was established at the Korea Housing Bank, paying interest of eight percent for deposits left for one day to one month, 12 percent for deposits left for one month to three months, and 15 percent for deposits left for more than three months. Interest is paid from date of deposit to date of withdrawal.

(4) To increase the Korea Housing Bank's authorized capital by \$83 million (W40 billion) between 1977 and 1981, and the paid in capital by \$20 million (W10 billion) in 1977. The bill to increase the capital of the Korea Housing Bank will go before the parliament in the September session. The increase of capital for the Housing Bank will allow it to undertake more effectively its increased role of providing housing finance.

(5) To increase KNHC authorized capital by W100 billion (\$208 million). This bill will go before the national parliament in the September session, and if enacted will allow the increase in KNHC capital over a several year period.

(6) To raise an additional W10⁰ billion in the national housing bond sales annually through expansion of the bond sales base and increase the amount of bonds which must be purchased. While the AID consultant did not feel that housing bonds provided the best source of housing funds, the aggressive pursuit of this category by the Korean Government seems to indicate that substantial housing funds may be generated from this source.

(7) To increase interest paid on national housing bonds from the current six percent to 12 percent. This suggestion will go a long ways toward removing the objections of the AID consultant to the use of national housing bonds. To the extent that national housing bond interest rates can be brought nearer to the market interest rate levels, the tax and subsidy aspect of the use of national housing bonds will be greatly diminished. The rate on national housing bonds will be set by presidential decree, as a result of the National Assembly approval for change in legislation occurring in July 1977.

(8) To establish a uniform maturity of 20 years for both national housing fund loans and loans made with banking funds. The increased uniformity provided in the nation's mortgage loans, both by the standardization of interest rate and term, should make the mortgage a more viable financial instrument. Terms of mortgage loans will be set by the Ministry of Finance and the Ministry of Construction and are implemented by presidential decree. It is estimated that uniformity in mortgage terms will be established in a three to six-month period.

(9) To reorganize the Korea Housing Bank's board of directors and policy making committee. The most important change in the policy making committee of the Korea Housing Bank is the addition of a representative from the economic planning bureau. This should make the Korea Housing Bank more responsive to the national housing needs.

(10) To establish the KHB branch offices in 61 local areas over the period 1977 to 1981. This should provide an effective step in making the KHB both a more effective mobilizer of private savings and a more accessible source of mortgage credit.

4) Assessment of New Policies

The total effect of the policies being adopted by the ROKG appears highly favorable. For the first time, there appears to be effective communication between the various offices of the ROKG which are concerned with housing finance and housing finance policy. Korea housing finance policy was highly responsive to AID's suggestions. The major responses of the ROKG were in the area of removing the subsidy element from mortgage interest rates, abandoning the plan of tying interest rates on mortgage loans to the source of mortgage funds, providing a more rational and responsive savings account structure and expanding the KHB, both in terms of its capital and branch offices so as to make it more effective in providing housing finance.

The major implication of the evolving housing finance policy will be to provide an increase in the amount of private funds which are attracted into housing finance and to preserve the existing public and private housing funds. As the result of the major policy initiatives which have been undertaken in 1977, the basic directions have been established for the development of a strong, growing, self-sustaining Korean housing finance system capable of providing quantity and quality housing for all Korean citizens.

4. Role of AID Assistance FY 1977-'78 Program

In prior years, assistance has been primarily directed at two concurrent levels: financing specific housing and community improvement projects and assisting the Koreans in developing and implementing changes in their national housing policies and plans. The ROKG has now addressed the most significant problems of housing finance and has adopted a set of housing finance policy decisions which are a significant step toward rationalizing their national housing finance system. It is now time, in concert with and support of the ROKG efforts, to implement the new policy.

The FY 1977-78 program is planned as a continuum of assistance to the Korea housing sector with the focus shifted to housing finance. The FY 1977 segment of the program is a Transition Phase defined as Phase A. During this Phase, HIG financing will be made available at the new mortgage lending rate through the KNHC for purchase of KNHC housing designed to reach lower income groups and disbursed over a wider range of secondary and tertiary cities. Simultaneously, in preparation for the FY 1978 segment of the program (Phase B), assistance and support will be given to KHB in implementing the new finance policy, conducting special studies, and expanding and improving the housing finance system. In Phase B, in the FY 1978 segment of the program, the Housing Guaranty Program will provide financing directly to KHB for relending through the housing finance system. This final Phase of assistance to Korea by the Housing Guaranty Program should achieve the objective of developing a rational national housing finance system, which can mobilize domestic resources and make long term credit available to a broad range of borrowers including low income families.

B. Detailed Description

1. Goal - AID's housing sector goal in Korea is to improve the shelter conditions of low-income families in the urban areas through the introduction of new approaches to shelter and the development of housing sector policies and institutions including the expansion and improvement of the national housing finance system. The recently adopted ROKG housing finance policy, together with previously adopted and implemented housing policies, have the potential for accelerating the mobilization of domestic savings and investment available for long-term housing finance in Korea. In the public sector, the national housing policy and construction plans are directed toward building and financing lower cost and size dwelling units to reach lower-income groups. The Korean housing policy is further directed toward stimulating and encouraging the private sector to satisfy the growing needs of middle- and upper-income groups.

2. Purpose

a. Phase A: Transition (FY 1977). The purpose of the 1977 project is to support the initial ROKG implementation of the housing finance interest rate policy decision which the government has made, and to assist in the development of operating policies and procedures within the KHB to prepare that institution for its expanded role as the source of housing finance in Korea.

b. Phase B: Development of National Housing Finance Institution (FY 78). The purpose of the 1978 and final phase of AID assistance to the Korean housing sector is to support the Korea Housing Bank expand its role as the principal housing finance institution and introduce lending programs more suitable to the needs and financial capacity of lower-income families.

The initial implementation of the new housing finance policies in 1977 should result in increased domestic savings flowing to the KHB. The concept of higher interest rate mortgages will have been introduced under the 1977 project. The expansion of KHB, through increased branch offices throughout the country, should bring the savings and lending process of KHB closer to their potential clientele, and make their services available to low-income families.

3. Phase A: Project Description (FY 77). The FY 77 HIG Project consists of two major and related components. The first component is the introduction of the ROKG's revised interest rate policy and its application to the financing of shelter for low-income families. The second component is the institutional development of the KHB to prepare the KHB to undertake an expanded and more responsible role in the housing sector and to prepare itself to act as the implementing agent for the FY 78 HIG.

a. Introduction of Low-Income Housing Finance Policy

1) KNHC Outputs

This component of the 1977 Project will be implemented through the KNHC which will relend the proceeds of the HIG loan to individual families for long-term mortgage financing of minimum standard, low-cost apartments and row houses. Terms of mortgage loans will be 12 to 15% and 20 years maturity, reflecting the ROKG decision

to establish a uniform interest rate for all mortgages and to move mortgage rates closer to the market rate. To achieve affordability by the target income groups, the KNHC will utilize a graduated payment mortgage under which initial mortgage payments are low and gradually increase over time reflecting rising incomes. (See Annex 8 for a detailed description of the graduated payment system).

The KNHC low-income housing to be financed under the 1977 HIG is designed to meet the shelter needs of lower-income families which are affordable at the new and higher interest rates. In this respect the KNHC is continuing to take the lead and risk in the introduction and testing of new unit types to meet the needs of low-income families and at the same time expanding the geographic coverage of its low-income program to more urban areas. Under the 1977 project the KNHC is accepting the added risk inherent in marketing the lowest standard housing produced in Korea at an interest rate 4 to 7% higher than that financed with National Housing Funds in 1976.

Specifically, KNHC will introduce in both Seoul and two secondary urban areas a new 8 py. apartment type designed to an even lower price (adjusted for inflation) than the 7.5 py. apartments introduced in Seoul in last year's HIG finance project. KNHC will also introduce small expandable row houses in three secondary urban areas designed to test plans that allow families to more readily add on to their homes themselves as their incomes permit. The production of 10 py. apartments, successfully introduced in last year's project, will be more than doubled in Seoul and introduced in three additional secondary urban areas. The 13 py. apartments will be introduced in four new secondary urban areas and, in all, 25 projects will be developed in 16 different urban areas, almost three times as many areas as undertaken with HIG financing last year.

Projects to be developed by KNHC with other sources of financing reflect these same directions. The expandable row house projects will serve as pilot schemes for a program KNHC hopes to develop in the coming years with IBRD financing. The 10 py. apartment will be introduced in various rental housing projects (almost as many 10 py. rental units will be built as will be built with HIG financing). The largest unit that will be built by KNHC this year with other sources of financing will be 15 py. down from 25 py. last year and even the number of these units to be built will be under 15% of the total financed from other sources. The 13 py. apartments, popularized through previous HIG-financed projects, will represent approximately 70% of the total to be built this year by KNHC with other sources of financing up from 50% last year. Overall, KNHC will expand its programs this year to more than 25 of the 35 urban areas in Korea.

a) Description of Units

Illustrative plans of each unit type are shown in the attachments. Final plans and sizes may be adjusted by KNHC :

to keep within agreed-upon sales price ceilings.

The 8 py. (8.6 py - 28.4 m²) apartment will be a modification of the 7.5 py. unit introduced last year. Costs (adjusted for inflation) will be reduced almost 20% principally by using the traditional ondol heating system instead of central heating. Total monthly costs (again adjusted for inflation) will be reduced about 25% considering both the lower capital cost and somewhat lower operating costs. The 10 py. (10.8 py - 35.7 m²) and 13 py. (13.0 py - 43.0 m²) apartments, also with ondol heating, will be basically the same as developed previously with minor changes to reflect preferences indicated by surveys of purchasers. All of the apartments will have at least two rooms with small bathroom, kitchen, balcony, and storage areas as described in previous HIG Loan Papers. Projects will continue to include a variety of play areas, neighborhood, shopping, and community facilities. The recreational centers for elderly people and the women's workshops for cottage industry, both highly successful Saemaul activities in the HIG-financed Chamsil Apartment Project, will be expanded and emphasized in the new projects.

The workshops and recreation centers are a particularly interesting example of the kind of community facility that KNHC attempts to include in its projects. In Chamsil a workspace was included in the community center financed with HIG loan as a project cost. The Saemaul organization ("New Village" self-help organization) furnished tables and other light equipment and arranged contracts with local industries for the manufacture of, in this case, doll clothes for export. Some 230-250 women living in the project work there part-time earning on an average of 30-40,000 Won (\$62-83) per month while remaining close to their homes and children. Upstairs in the same building a similar space serves as a meeting room and during the day large numbers of elderly people living in the project gather for lively conversation, traditional games and music, and tea-drinking. KNHC plans to include similar centers in more of its projects this year.

The expandable row houses start with an 8 py. (8.8 py - 29.1 m²) L-shaped single story unit with two small rooms, a kitchen and a bathroom on a minimum 27 py. (90 m²) lot. The house can easily be expanded by the owner to 11 py. (36 m²) with addition of one room. The 11 py. unit can be expanded further to the front of the lot. Construction will be lightweight masonry and site planning will emphasize efficiency of land use with pedestrian walkways and two story (non-expandable) 10 py. (10.2 py - 33.5 m²) row houses to provide variety. Row housing in addition to the increased flexibility offered for the families will also enable KNHC to use less expensive

slightly hilly sites with less need for grading than apartments. Densities being lower, however, the site and site development costs per unit are somewhat higher than for apartment projects.

b) Size and Location of Projects

A total 6,750 units will be built. Projects will be kept smaller than in previous years to increase the number of cities that can be served, to reduce the monotony of large complexes, and to take advantage of smaller sites that are more readily available in the shrinking land market. The two largest projects (in Seoul) will be 1400 and 1500 units. Others range from 100 to 600 units.

Four projects will be located in Seoul. All of the units to be built in Seoul will be apartments reflecting the more limited supply of land than in some of the secondary urban areas. Six hundred 13 py. apartments will be added to the Dogok new community started under last year's project. Fourteen hundred 10 and 13 py. apartments will be built in Naebal-San on the road to the airport, and fifteen hundred 8 and 10 py. apartments will be built in Dongsan also on the southern side of the city.

The 23 project areas in 15 different secondary urban areas total 3,250 units or 48% of the total. The cities selected include the important new growth poles of Masan, Gumi, Pohang, and Ulsan where housing is needed for industrial workers. The cities also include the larger secondary urban areas - Busan and Daegu; satellites of Seoul - Anyang and Buchon; and representative smaller provincial cities - Iri, Junju, Jinju, Iri, Kunsan, Cheju, and Andong. Seven hundred of the units will be expandable row houses; the most important project - 500 units - being in Gumi; others in Cheju and Pohang. Five hundred fifty 8 and 10 pyong apartments will be introduced in Ulsan, Masan, and Andong.

Of the total number of units to be built, 3,150 or 47% will be 8 and 10 pyong apartments or expandable row houses; 3,600 or 53% will be 13 pyong apartments.

c) Sales Prices and Financing Terms

The KNEC has agreed to salesprice ceilings for each unit type calculated on the basis of affordability by target income groups assuming a net interest rate of 15% and 20 year graduated payment mortgage. Adjustments in final designs of units will be made to keep within these ceilings.

The lowest price units, the 8 pyong apartments will be priced at no more than 2.3 million won (\$ 4,760) which

LOCATION, NUMBERS OF UNITS, AND TOTAL HIG FINANCING

<u>Unit Type</u>	<u>Size</u>	<u>Seoul</u>	<u>Secondary urban areas</u>	<u>Total</u>	<u>%</u>	<u>Approximate total HIG financing</u>
apt.	8	600	150	750	11.1	2.0 million
apt.	10	1,300	400	1,700	25.2	5.6
apt.	13	1,600	2,000	3,600	53.3	5.2 (Seoul) - 9.4 (Others)
row house	8		350	350	5.2	1.3
row house	10		210	210	3.1	0.9
row house	11	<u> </u>	<u>140</u>	<u>140</u>	<u>2.1</u>	<u>0.6</u>
		3,500	3,250	6,750	100.0	25.0 million

with average 50% downpayments in Seoul would require initial monthly payments including management fees of approximately 10,500 won (\$ 21.70) and assuming 20% of income devoted to payments would be affordable by income groups in the second decile of the income distribution (see Section III B 1.a for income distribution and affordability analysis). The same units in secondary urban areas would require average downpayments of only 30% with initial monthly payments including management fees of approximately 14,700 won (\$ 30.40) affordable by income groups in the third decile of the income distribution.

At the higher end of the price range, the 13 pyong apartments in Seoul will have a price ceiling of 3.3 million won (\$ 6,830) and in the secondary urban areas of 3.35 million won (\$ 6,940) which with downpayments also averaging 50% and 30% respectively would require initial monthly payments including management fees of about 15,000 won (\$ 31.10) in Seoul and 21,350 won (\$ 44.20) in other areas affordable respectively by income groups in the third, fourth and fifth deciles of the income distribution.

The salesprice ceiling, downpayment, approximate monthly payment including management fee and target income group for each unit type is summarized below.

Unit type	Size	Salesprice (million won)		Average downpayment	Approximate ¹ initial monthly payment
		low	ceiling		
<u>Seoul</u>					
apt.	8 py.	2.3	2.3 (\$4,760)	50%	10,500 (\$21.70)
"	10 py.	2.8	2.9 (\$6,000)	"	13,200 (\$27.30)
"	13 py.	3.0	3.3 (\$6,830)	"	15,000 (\$31.10)
<u>Secondary urban areas</u>					
apt.	8 py.	2.3	2.3 (\$4,760)	30%	14,700 (\$30.40)
"	10 py.	2.7	2.9 (\$6,000)	"	18,500 (\$38.30)
"	13 py.	3.1	3.35 (\$6,940)	"	21,350 (\$44.20)
row house	8 py.	2.45	2.45 (\$5,070)	"	15,600 (\$32.30)
"	10 py.	2.85	3.0 (\$6,200)	"	19,119 (\$39.51)
"	11 py.	3.1	3.2 (\$6,630)	"	20,400 (\$42.20)

Prices of apartments will vary by floor to reflect market demand and essentially cross subsidize between the most and least desirable locations. To simplify administration the mortgage amount for each unit type will remain uniform with the downpayment varying to reflect the different sales prices for each floor. This permits families with less

^{1/} based on ceiling salesprice; loan at an average 15% and a 20-year graduated payment mortgage with a grace period on repayment of principal; and management fees estimated at 15% of monthly payment included.

savings to purchase with lower downpayments while those with more savings can purchase units in the more desirable locations with a higher downpayment. Downpayments in Seoul range from around 45% to around 55% and in the secondary urban areas from as low as 20% up to 40%. KNHC will seek terms on the loan of up to 25 years with a grace period on the repayment of principal of 10 years. The grace period will be passed on to purchasers enabling a lower initial monthly payment stepped up after 10 years to amortize the loan. KNHC will adopt a graduated payment mortgage which will reflect the higher interest rate resulting from the recent policy decision but maintain the same initial monthly payment level.

Under a graduated payment system, maintenance of value on the loan against dollar devaluations would be covered by the spread that would build up between HIG loan payments and gradually increasing payments by purchasers as discussed in Annex K.

2) Home Buyers and KNHC Inputs

- a) Downpayments - the downpayments of the home buyers are estimated to be about \$17 million (W 8.2 billion).
- b) KNHC will provide all of the administrative and technical staff required to plan, design, construct and sell the housing units and to service loans and manage and maintain the projects.

3) AID Inputs

- a) Housing Guaranty Loan - a loan for \$25,000,000 will be authorized, contracted for with an eligible U.S. Lender, and disbursed to KNHC as construction progresses and final sales are completed.
- b) Planning, Preparation, Monitoring and Evaluation - the Office of Housing, through its Regional Housing and Urban Development Office, will do the planning, document preparation, monitoring and evaluation.

b. Developing National Housing Finance System and Institutions

The second component of the 1977 project will be carried by the KHB, with the policy guidance and support of MOC, MOF and EPB, and U.S. technical assistance financed under the HIG loan. KHB will proceed with the implementation of the new housing finance policies and prepare the operating policies and procedures necessary for the KHB to expand its role in the housing sector under the 1978 Phase B Project. Specifically the KHB will undertake the following:

1) Finance Policies and Institutional Development - KHB Outputs

a) Implementing the New Housing Finance Policies

(1) Uniform Lending Terms - preparation for establishing uniform interest rate of 12 to 15% and term of 20 years to begin on/about January 1, 1978.

(2) Contract Savings System - establish system under which participants can save for a period of six months to five years to acquire a minimum of \$ 1,042 (W 500,000) at which time they receive priority for a housing loan.

(3) Short-Term Deposits - establish short-term deposits at KHB for one to three months paying a preferential insured interest of 10 to 15%.

(4) Additional Authorized and Paid in Capital - the National Assembly has approved additional authorized capital of \$83 million (W 40 billion) and paid in capital of \$20 million (W 10 billion).

(4) National Housing Bonds - expand the bond sales through an increase in amounts purchased by various required purchase categories, broaden the required purchase categories and increase the interest paid from six percent to twelve percent. The objective is to raise an additional \$20 million (W 10 billion) through bond sales.

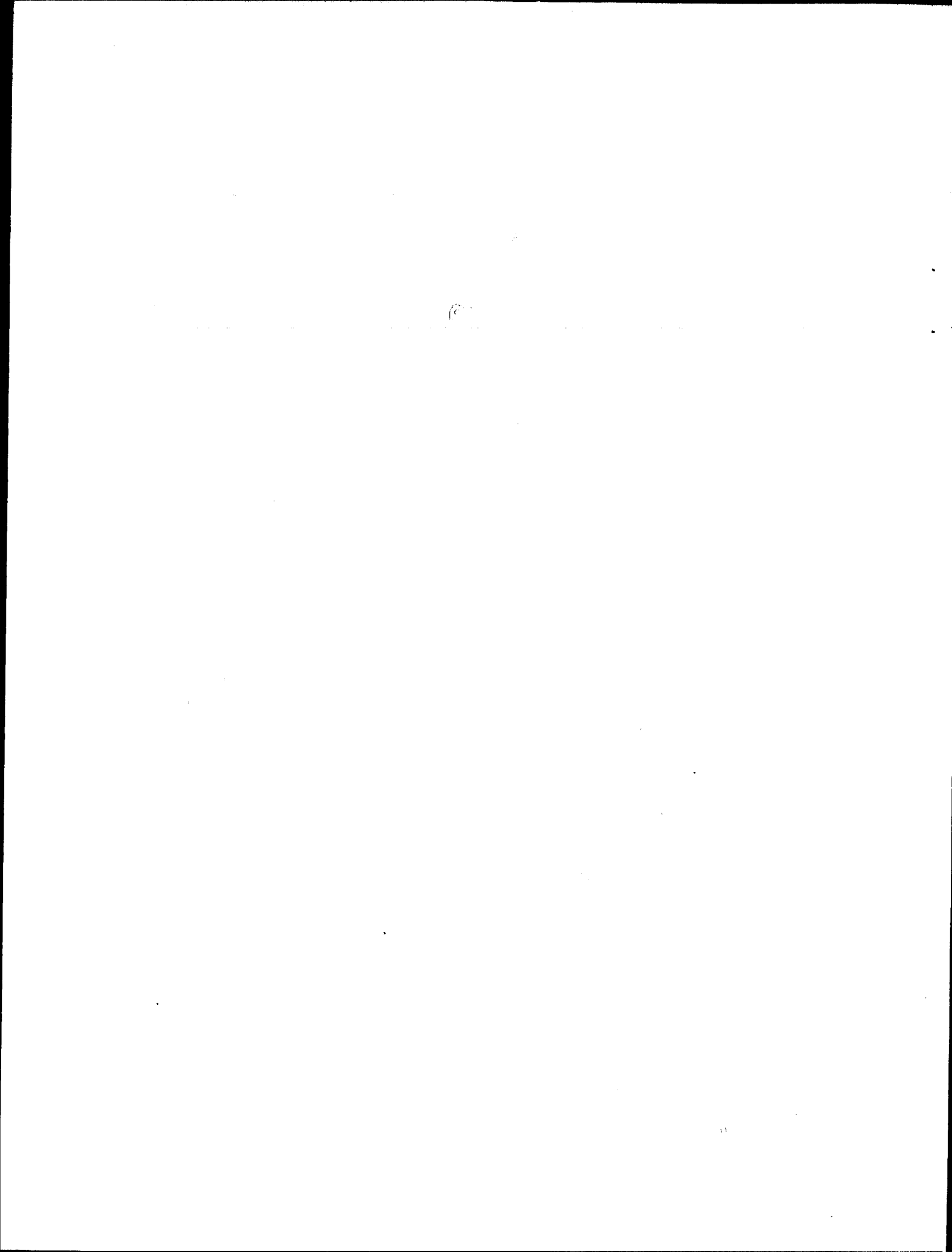
b) Reorganization and Expansion of KHB

(1) Board of Directors and Policy Committee - establish a Board of Directors and reorganize the Policy Committee.

(2) Expansion - establish additional 61 branch offices in local areas throughout Korea over the 1977-81 period.

c) Studies - As a follow-up to the recommendations in the Pratt Report and in preparation for the FY78 project, the KHB along with MOC and MCF will be conducting a series of detailed studies. These are to be conducted primarily by Korean finance specialists with the guidance and assistance of consultants provided by the AID Office of Housing.

(1) Mortgage Systems to Reach Lower Income Groups - the study of variable, stepped or graduated mortgages for the purpose of finding the best method for providing low beginning payments with increases geared to increasing ability to pay while maintaining a net interest rate reflecting the higher unified rate over a 20-year period. This study is related to both the 1978 housing guaranty loan financing and the normal mortgage financing



e) Overall Policy Implementation - the Housing Policy Section of MOC and the staff of MOF will provide continuing staff work in implementing and monitoring.

3) AID Inputs

a) Technical Assistance - the Office of Housing will provide a long-term housing finance specialist to work directly with KHB for a period of two years. These services will be financed from the 1977 and 78 Housing Guaranty Loans.

b) Consultants - short-term consultants will be provided by the Office of Housing to advise KHB in:

- (1) The design and conduct of the various studies and special expertise required for a study;
- (2) The promotion and management of savings programs;
- (3) The promotion and management of mortgage lending programs including credit reviews and income eligibility and establishment of home improvement lending operation;
- (4) The planning and implementation of a continuing evaluation program;
- (5) Special problems in housing finance as they become identified;
- (6) The further development of overall national housing policy and plans.

c) Planning, Preparation, Monitoring and Evaluation - the Office of Housing, through its Regional Housing and Urban Development Office, will provide guidance to KHB and do the planning, document preparation, monitoring and evaluation necessary to carry out this Transition/Preparation Phase through the beginning of the FY78 project.

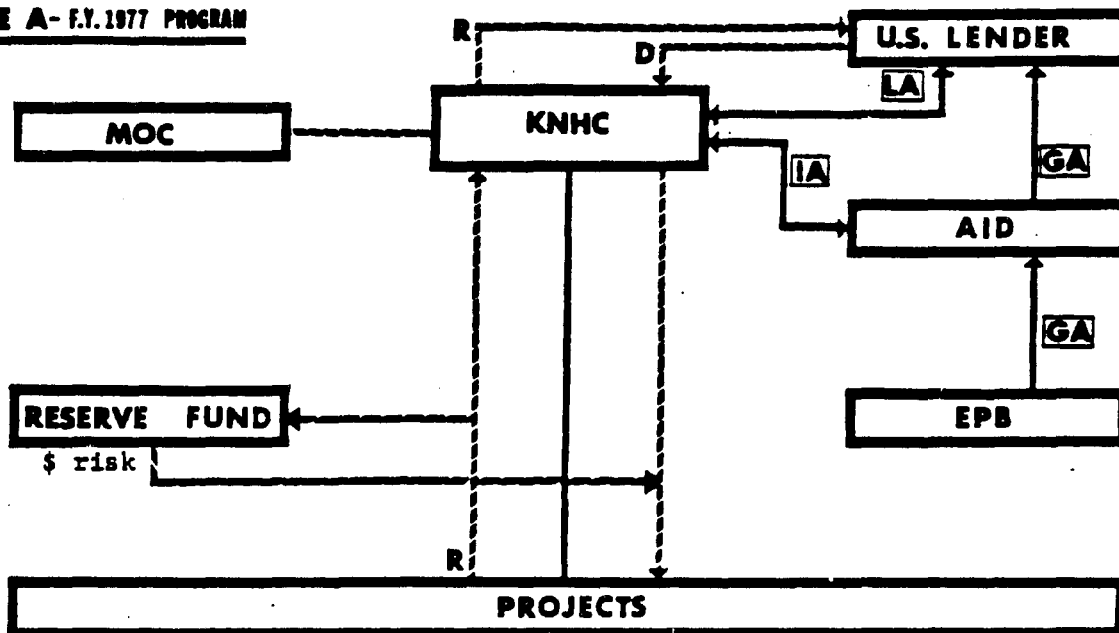
4) Summary of Loan and Downpayment Inputs

<u>Units</u>	<u>Downpayments</u>	<u>AID Guaranty Loan</u>	<u>Total</u>
Apartments and Row Houses	\$17.0 million (W 8.2 billion)	\$25.0 million (W12.0 billion)	\$42.0 million (W20.2 billion)

4. Phase B: Project Description (FY 78). The second stage of the FY 77-78 Housing Guaranty Program will be implemented through the KHB. Authorization of the HIG will be based upon an analysis by AID of the ROKG and KHB progress in carrying out the additional housing finance studies and instituting the housing finance policies and procedures constituting the first stage FY77 project.

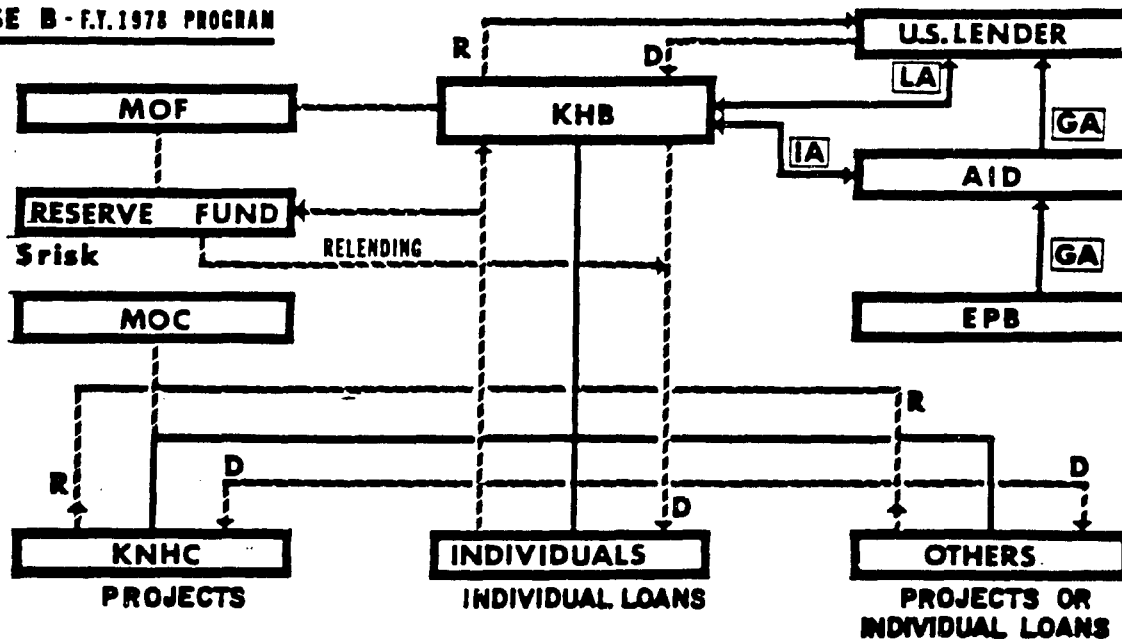
ORGANIZATIONAL RELATIONSHIPS

PHASE A - F.Y. 1977 PROGRAM



LA LOAN AGREEMENT
IA IMPLEMENTATION AGREEMENT
GA GUARANTY AGREEMENT
D DISBURSEMENT
R REPAYMENT

PHASE B - F.Y. 1978 PROGRAM



The KHB will have obtained the necessary National Assembly approval to be the borrower of the FY78 loan and will utilize the HIG for general relending at the new mortgage terms for financing of low-income housing produced by the public sector and private developers including cooperatives and credit unions and for home improvement loans.

a. KHB Outputs

- 1) Integration of Housing Guaranty Loan - the 1978 Housing Guaranty Loan will be integrated into the KHB operations as another source of financing. In administering the 1978 Housing Guaranty Loan, KHB will serve as both primary and secondary mortgage lender as it does now.
- 2) Criteria for Lending to Final Borrower
 - a) Types of Loans - loans made to the individual borrower may be for the purpose of purchasing a new dwelling unit, purchase of a serviced lot, purchase of building materials, or the improvement of an existing dwelling unit owned by the borrower.
 - b) Eligible Borrowers - families with income at the time of borrowing which is below the 50th percentile of the urban income. Not only must the income be below the 50th percentile, but loans must be made available to a range of income groups, reaching to the lowest whenever possible. Rural as well as urban families will be eligible to borrow funds.
 - c) Monthly Payments - beginning monthly, payments for repayment of the loan plus the monthly expenditures for heat, electricity, water, garbage removal, management and maintenance will not exceed 25% of the total family income at the time the loan is made.
 - d) Downpayments - for new dwelling units to be financed, the required downpayments will range from 20% to 50% of the cost of the dwelling unit, depending on locality and ability of the borrower to pay.
- 3) Terms for Lending to Final Borrower - terms will be consistent with KHB policies and practices for mortgage lending. The interest rate on all loans will be between 12 and 15% net per annum. Loans for new dwelling units will be for a period of 20 years. For house improvement loans, the repayment period may be for a lesser period.
- 4) Beginning Payments by Final Borrower - in order to reach the target income groups, a form of variable, stepped or graduated payment mortgage will be adopted. This method will have been developed under Phase A. In principle, the method should provide a beginning payment 30-40% below a comparable level payment mortgage, provide periodic increases comparable to periodic income increases, and

maintain a net interest return over the life of the mortgage. It is intended that the mortgage financing plan adopted will be available to final borrowers, whether the source of funds be the Housing Guaranty Loan or KHB funds (see Annex K for an illustrated graduated payment mortgage).

5) Lending and Relending

a) Loans may be made by KHB directly to final borrowers and serviced directly by KHB through its branch offices.

b) Commitments and loans may be made by KHB to agencies, institutions, and organizations as subborrowers for the purpose of their relending to the final borrowers. Such loans may be made to KNEC, local governments, credit unions and cooperatives and other subborrowers determined eligible by KHB. Depending upon the capabilities of the subborrower, the loans may be serviced by KHB or the subborrower.

6) Interest Rate Breakdown - in integrating the 1978 Housing Guaranty Loan into the KHB mortgage lending operations and practices, it is necessary to provide for the unique characteristics of the Housing Guaranty Loan without making it unique to the final borrower. Comparable lending of the Housing Guaranty Loan to the KHB funds, assuming a unified mortgage rate of 15%, is illustrated by the following:

<u>Source</u>	<u>H.G. Loan</u>	<u>KHB Funds</u>
U.S. Lender (estimated)	9.0%	—
Housing Bonds	—	12.0%
AID Fee	0.5	—
Spread	<u>5.5</u>	<u>3.0</u>
Rate to Final Borrower	15.0%	15.0%

In the case of the Housing Guaranty Loan, the spread will be used for KHB administrative costs, subborrowers' administrative costs and the establishment of a reserve fund to cover maintenance of value at a given level and for relending under the same criteria as for the initial loans.

In the case of KHB funds, the spread will be used for KHB and subborrower administrative costs.

7) Reserve Fund and Maintenance of Value - a reserve fund will be maintained by KHB under the supervision of MOF. This fund will maintain an established level of protection against devaluation at any given point during the loan repayment. Should devaluation exceed the reserve fund, MOF will be responsible for making good the loan repayment obligation.

Surplus funds in the reserve fund will be used for making additional loans under the same criteria and terms as the initial loans.

8) Target Income Groups - the target income groups will be families with monthly income between the 20 and 50 percentile of the all-city urban income at the time of borrowing.

9) Loans To Be Made - it is estimated that the loans could be made to finance shelter and shelter improvements, as follows:

<u>Type of Loan</u>	<u>Average Loan</u>	<u>No. Loans</u>	<u>Total</u>
New Housing	\$3,000 (W1,450,000)	5,000	\$15 m (W7.25b)
Serviced lots and building materials	\$1,600 (W 773,000)	3,125	5 m (W2.4 b)
Home Improvement	\$ 700 (W 338,000)	7,150	5 m (W2.4 b)
Total		<u>15,275</u>	<u>25 m</u> (W12.0 b)

10) Studies - KHB will continue with studies as outlined under Phase A.

11) Research and Evaluation - KHB will continue research and evaluation, as outlined under Phase A.

b. KHB, Subborrowers and Final Borrowers Inputs

1) KHB Administration of Loans - KHB will accept and review loan applications and make loans and service those loans. In reletding to subborrowers, KHB will receive and review requests, make commitments, enter into subloan agreements, disburse sub-loans and service the subloans.

2) Subborrowers - Servicing of Loans - the various subborrowers will accept and review loan applications, make loans and service the loans.

3) Downpayments, Paid Labor and Sweat Equity - assuming an average downpayment of about 30% for the loans for new housing, it is estimated that 5,000 loans will generate about \$7.0 million (W 3.4 billion) in downpayments. In addition, the building material loans and home improvement loans will generate considerable value in paid labor and self-help sweat equity, estimated in value at about \$5.0 million (W 2.4 billion).

4) Expansion - KHB will continue to expand branch offices to service more people to mobilize savings and process and make loans.

5) Conduct of Studies - work on studies initiated during Phase A will continue to be supported and funded by MOC, MOF and KHB.

6) Research and Evaluation - KHB will continue to maintain and, as required, expand staff or contract out its activities.

7) Technical Assistance - Housing Finance Specialist assigned to KHB will continue services but will be funded out the 1978 Housing Guaranty Loan.

c. AID Inputs

1) Housing Guaranty Loan - a loan for \$25,000,000 will be authorized, contracted with an eligible U.S. Lender, and disbursed as KHB generates eligible loans to final borrowers. Construction financing will be considered on an individual basis.

2) Consultants - the Office of Housing will continue to make U.S. consultants available, as planned in Phase A.

3) Assistance and Monitoring - the Office of Housing, through its Regional Housing and Urban Development Office, will provide continuing assistance to KHB, MOC and MOF, and will monitor the program during the implementation period.

d. Summary of Loan and Equity Inputs

<u>Type of Loan</u>	<u>Down Payment Sweat Equity</u>	<u>AID Guaranty Loan</u>	<u>Total</u>
New Housing	\$7.0 m (W3.4 b)	\$15.0 m (W7.25 m)	\$22.0 m (W10.65)
Serviced Sites and Building Materials	2.5 (W1.2)	5.0 (W2.4)	7.5 (W 3.6)
Home Improvement	2.5 <u>(W1.2)</u>	5.0 <u>(W2.4)</u>	7.5 <u>(W 3.6)</u>
Total	\$12.0 (W5.8)	\$25.0 (W12.0)	\$37.0 (W17.8)

III. PROJECT ANALYSIS

A. Technical, Management and Environmental Analysis

1. Phase A Transition - FY 1977

a. Introduction of Low Income Housing Finance

1) Dwelling Units - Planning and Distribution

Though small, all of the units are efficiently planned. Korean families spread bedding on the warm floor at night, then clear it for chests for daytime living, getting double use out of the space. Apartments are designed so that in the future, they can be combined and converted to larger units with minimum change. Heating is by traditional "ondol" systems, where heat from slow burning coal briquettes is conducted through flues in the floor.

Some of the units are built with masonry bearing walls using pressure molded lime block, developed by a KNHC subsidiary that achieves greater strength and quality than conventional brick at the same cost. Projects near Seoul will be built with prefabricated panels, manufactured by another subsidiary which further reduces costs and construction time.

The apartment buildings are designed as five story walkups, with two to four apartments per floor sharing a stairway. Buildings vary from 20 to 100 apartments. The acceptance of apartment living in Korea has grown, in part, through the demonstration of KNHC programs. The densities achieved with apartment construction are an important factor in limiting urban sprawl and the resulting strain on land resources and infrastructure. The project areas include community and marketing facilities, parking, playgrounds, and green spaces. Projects in all cities are comprehensively planned community developments, integrated with urban development plans of those cities. The KNHC staff assists city bureaus in the planning of infrastructure and any services, such as public transportation that will be needed.

Site planning could still be improved especially in regard to hilly sites, but KNHC projects are nevertheless better than the generally accepted standard in Korea. The attention to landscaping, play and recreation areas, shopping, and community facilities allows more human scale.

Project selection and distribution is planned in close connection with local city governments. Applications, including site recommendations, based on urban development plans and housing construction programs for low income groups are reviewed for feasibility by the KNHC and adjustments made with the Housing and Planning Bureaus of the cities. Allocation of financing is based on the guidelines and housing policy of the Ministry of Construction. Final selection also depends on the city's cooperation in the planning of infrastructure and services for the project.

The increased number of urban areas being served by KNHC contributes to government policy efforts, to develop secondary cities and new alternative growth poles.

2) Management and Administrative Capacity of KNHC

KNHC has earned a reputation for quality construction as well as project management after completion. It has demonstrated on previous HG projects an exceptionally high degree of competency in design, implementation, and management. Its prices are reasonable, and its projects tend to set standards for the private sector, while reaching significantly lower income groups.

Architectural planning begins with studies by the Research Institute of KNHC, of comments on previous projects and preferences indicated by purchasers. Preliminary plans are reviewed by a group of consultants, including architects and planners from universities in Seoul. Final selections are approved by the Directors of the KNHC. The result of this process has been apartments that are efficient, more adapted to the Korean way of life than most apartments, and which have proven quite popular in Seoul.

The engineering department of the KNHC has continually developed other innovative techniques for introduction through the HG program. An automatic forced drafting system was developed to eliminate the carbon monoxide danger in ondol heating, which can result from leaks in flues or from poor drafts, when atmospheric conditions are poor.

It has over 500 engineers and technicians, including teams that supervise contracting and construction. Materials are purchased in quantities by the KNHC, and its projects have been carefully programmed for remarkable production, with construction time of even large projects generally under six months.

With over 100,000 units that will be under management by the end of this year, KNHC is now preparing plans to computerize its administrative operations. Even without computers, its loan administration and project management have been good.

Given AID's experience with KNHC, AID will limit its reviews to agreed upon income group criteria, the mix of unit types and sales price ceilings. KNHC will assume complete responsibility for design and planning, to meet those criteria without AID technical review.

3) Environmental Considerations

Recent studies documenting the existing environmental conditions in Seoul and the other urban centers of Korea indicated several areas of potential concern. Municipal and national programs aimed at mitigating major air and water pollution problems were analyzed and deemed to be adequately conceived and likely to be effective within a reasonable time frame. The proposed 1977 HIG program was then evaluated as to its potential impact on the existing environmental condition. Using an Environmental Impact Identification Matrix developed for HIG programs, a number of specific areas of environmental concern were identified as potentially important or critical. The possible impacts of the program components on each of these environmental concerns was then analyzed. As specific project locations are not identified in this program, the normal practices and standards of KNHC were used as the basis of determining likely impact. In each case the conclusion was that the environmental impact of the program would not cause a significant change in the existing condition of the human environment. Consequently the IEE recommended a negative determination.

2. Phase B - FY 1978

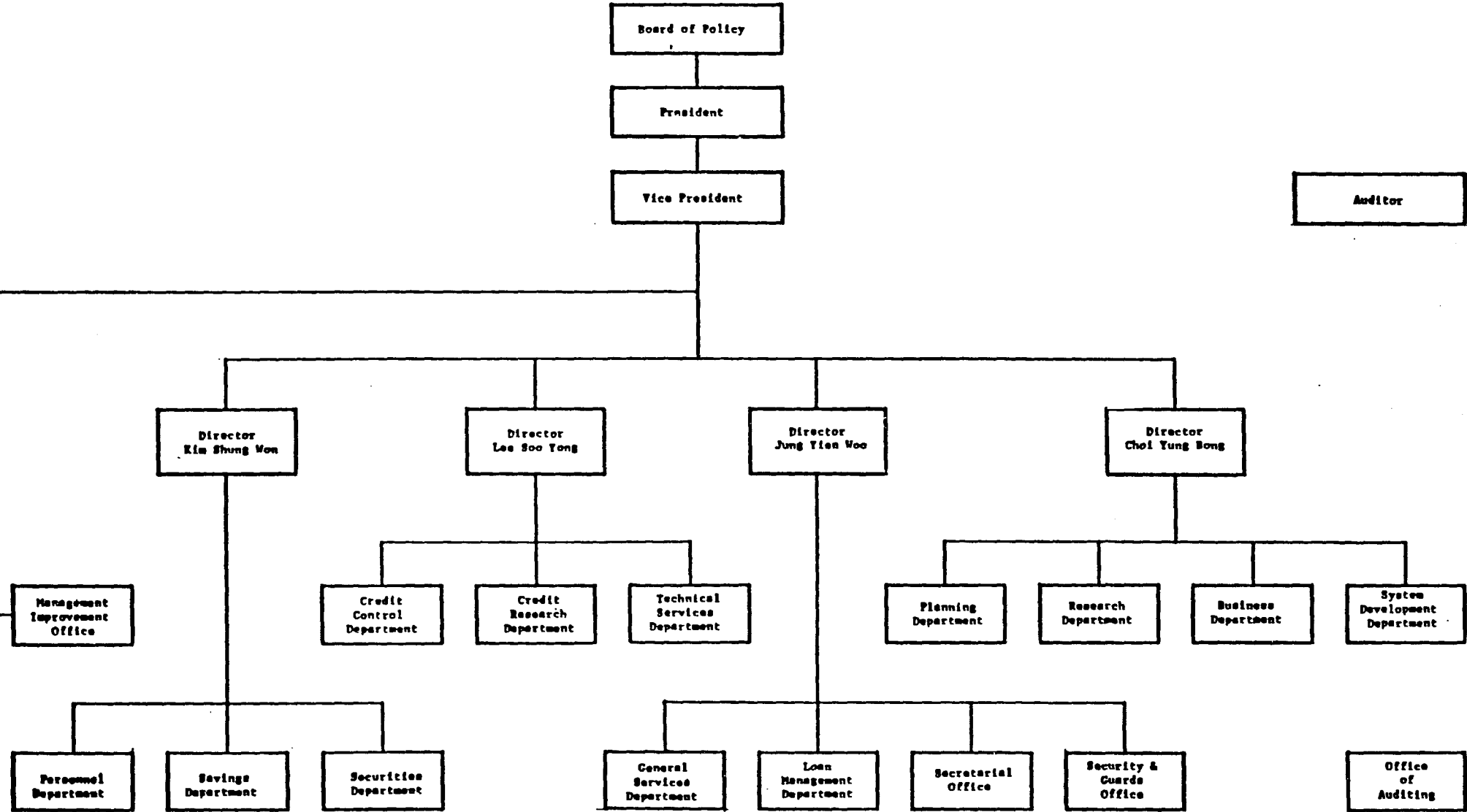
a. Korea Housing Bank

1) Background

KHB was established for the purpose of providing housing funds for low income families. As of late 1976, total assets of the KHB totalled somewhat over 208 billion won, with 71 percent of this amount being allocated to the housing area. As a matter of practical fact, KHB has not been heavily engaged in lending to low-income families as normally defined by AID criteria. KHB has limited its loans to financing structures of 15 to 25 pyong which are larger than any unit size presently being financed by the HIG funds under current and proposed programs.

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ORGANIZATION OF THE KOREA HOUSING BANK



2) Organization and Management

KHB receives its overall guidance from a Board of Policy composed of representatives from the various government ministries. In the past, the Board of Policy has been composed of the Ministers of Finance, Ministers of Construction, the Bank of Korea, and the President of KHB. Serving under the Board of Policy is the President, Vice-President, and the Office Directors within KHB. An organizational chart of the KHB is shown in Exhibit I. As the organizational chart shows, KHB is organized along functional lines with an Office Director supervising the several functions under his jurisdiction. A general analysis of the management structure of KHB indicates that while the management appears competent with well-developed managerial skills, technical expertise among management is somewhat lacking. This may be a result of the KHB's growth in a relatively isolated environment with little contact with other international experience in the area of housing finance.

3) Operations

KHB is composed of a head office which has no banking facilities on the premises and is located in downtown Seoul, and 38 branches and 21 subbranches throughout the country. KHB has approximately two thousand employees, including about 50 employees in the technical services' area, who are concerned with building and site inspection and associated activities.

While KHB provides an image of a relatively conservative financial institution which has been geared to providing limited housing finance from generally subsidized sources, there appears to be a strong impetus within KHB and the government to make KHB a more effective mobilizer of housing savings capital and to meet a broader spectrum of the country's housing finance needs. KHB has undertaken, partly as a result of AID technical assistance, a comprehensive plan to improve and expand their operations. It appears that with the implementation of its plans, KHB has the potential of being able to serve as an effective lender of HIG funds in the second year of the proposed program.

4) Reorganization and Expansion

The improvements and changes which KHB is in the process of undertaking are relatively comprehensive and should provide important progress. The major elements of KHB's program are, as follows:

a) Increases in the Financial Capacity

KHB is to have its authorized and paid in capital increased by 50 billion won over the period 1977 to 1979. Increases are scheduled to be 20 billion in 1977, 10 billion in 1978, and 20 billion in 1979. The bill to provide for the additional capital will be presented to the National Assembly at its ordinary session in September 1977.

b) Organizational Changes

The Board of Policy of KHB will be changed to include a member appointed by the Minister of EPB, the Minister of Construction, and the governor of the Bank of Korea. At the present time, the Board of Policy is composed of the ministers of the various agencies and, it appears because of their pressing schedules, they have not been able to devote the necessary time to the policy matters concerning KHB. The addition of a representative from EPB appears to be a significant improvement in the Board of Policy, inasmuch as EPB brings an overall view of the nation's economy and the national policy direction. It is further proposed that the Board of Policy discontinue its role of issuing directives and exercising supervision of the KHB business operations, and that the Board of Policy concentrate entirely on formulating basic policy for KHB. The operations of KHB will now be in the hands of the newly created board of directors, which will be composed of the office directors of KHB. The implementation of this board of directors should make the operations of KHB more flexible and bring a greater coordination between the major sections within KHB.

c) Private Savings Mobilization

A substantial problem in KHB was the proliferation of savings accounts, most having limitations upon deposits or restrictions, which would tend to lower rates of return for short term deposits. KHB, as of July 1, 1977, instituted a short term savings account which paid interest of 8 percent to 15 percent for deposits of one day to over three months. The significant improvement in this savings account is that interest is paid from date of deposit, allowing smaller and low-income savers to earn a reasonable rate of return on cash balances which are only temporarily available. The program appears to be highly successful, with deposits exceeding \$12.4 million (W 6.0 billion), after 20 days of experience with the account. The KHB and the government have pledged to further examine the structure of savings accounts in order to increase their rationality.

d) Reduction of Subsidy Elements and Rationalization of Loans

As a part of the general housing finance policy being developed within Korea, it is the intention of KHB to eliminate the tie between sources of funds and types of loans made, to raise interest rates on loans, to remove major subsidy elements from these loans, and to standardize the maturity of mortgage loans. KHB is to implement this policy through increased interest rate to be applied to all loans made with banking and national housing funds, beginning about January 1, 1978. The final rate to be utilized is now under study and will be between 12 and 15%. This will increase the average interest rate presently being earned by the KHB and should greatly improve the ability of KHB to generate future housing capital.

e) Expansion of Facilities

The KHB intends to add approximately 60 branches to the system over the next five-year period. This should increase the accessibility of all citizens to both savings and loan services.

The programs being undertaken by the KHB reflect the national housing finance policy being developed within the Government of Korea, and seem to be highly responsive to the suggestions made by AID in its major consulting report on housing finance in the Korean economy.

5) KHB - Technical Standards for Relending

The Korea Housing Bank currently does only limited technical review of individual loans and relies on the Ministry of Construction's approval of projects, financed with public funds. KHB and AID will evaluate three alternative strategies to assure sound technical standards of projects financed:

- a) expansion of KHB technical capacity;
- b) reliance on MOC approvals;
- c) contracting with KNHC or private engineering consultants.

Criteria for income group eligibility, and loan ceilings on individual loans will be determined by AID and KHB, as well as unit size and sales price limitations on project financing.

6) Environmental Considerations

A Programmatic Assessment, as is required in Section 216.1 (C) (7)(iii) of AID Regulation 16, is being prepared for HIG programs with Intermediate Credit Institutions (ICI). The Korean Housing Bank was deemed to meet the criteria of an ICI as outlined in the Programmatic Assessment in that neither specific projects nor borrowers can be identified. Under these circumstances a NEGATIVE ENVIRONMENTAL DECLARATION was recommended.

B. Financial Analysis

1. Phase A - FY 1977

a. Introduction of Low Income Housing - Financial Policy -
KNHC

1) Target Income Groups

The units to be financed under the 1977 HIG are designed to be affordable at the new interest rate by households from the 20th to the 50th percentile of the income distribution. In fact, depending on the accuracy of income distribution projections (discussed in Annex D), the smaller units in Seoul may be affordable at incomes as low as the 10th percentile. Based on those projections to the 4th quarter of 1977, 28 percent of the units to be built under this year's HG program would be affordable at incomes between the 10th and 20th percentiles; 31 percent at incomes between the 20th and 30th percentiles; and 41 percent at incomes between the 30th and 50th percentiles.

2) Affordability

a. Downpayments: Experience on previous HG loans and surveys of purchasers of units confirm the unusually high savings capacity in the Korean society. While this has not been fully quantified in terms of how savings are accumulated or the levels of key money for existing housing and its relation to home purchases or savings rates at different income levels, it is demonstrated through the ability of low income purchasers, particularly in Seoul, to make downpayments averaging 50 percent of the cost. The downpayments in secondary cities have been set at an average of 30 percent reflecting marketing experience of KNHC in those areas. As described in Section II B2-a.3, downpayments actually range from around 45 to 55 percent in Seoul and 20 to 40 percent in secondary cities giving purchasers options to reflect their particular circumstances.

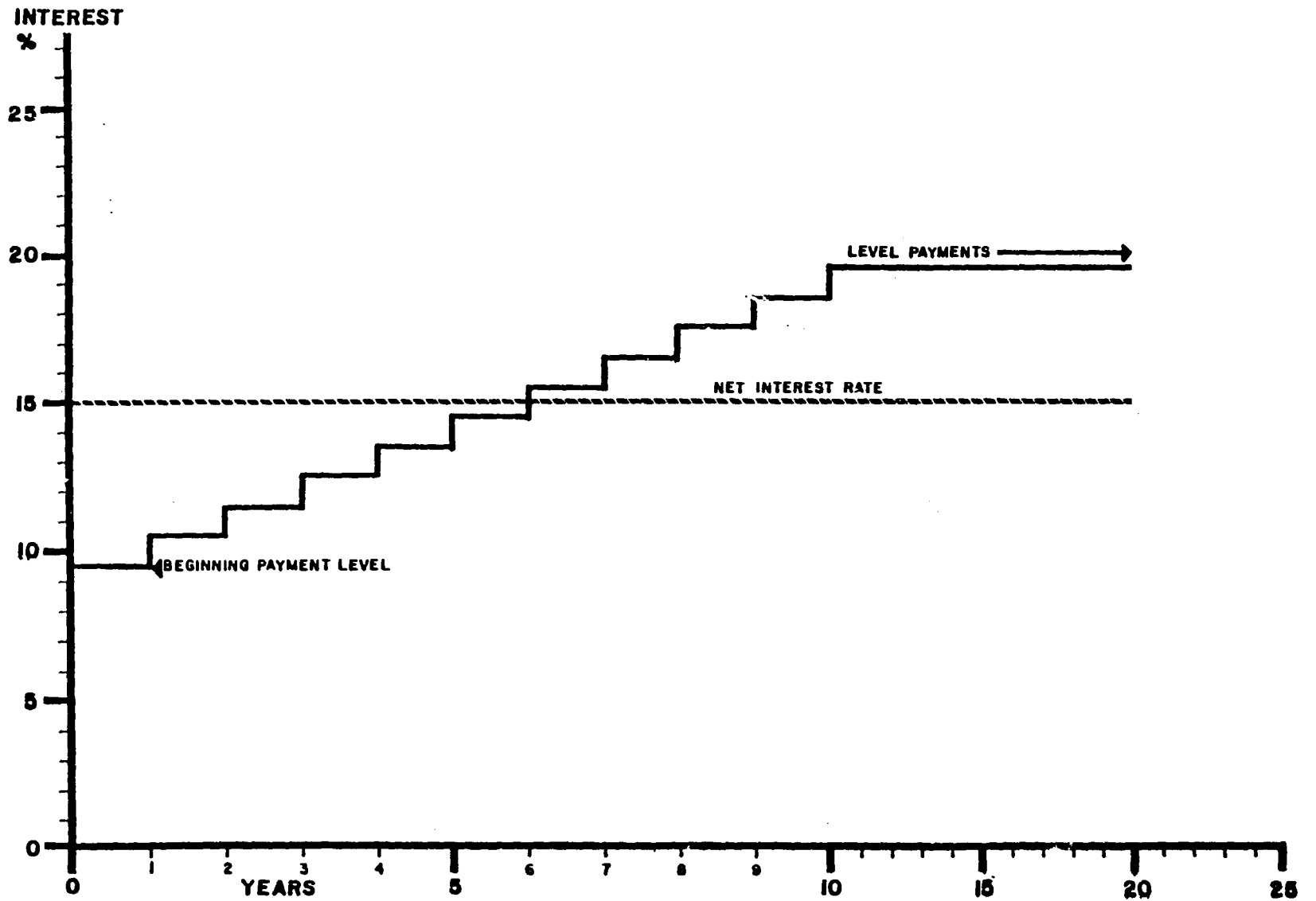
b. Monthly Payments: The financial plan for the 1977 project is based upon the assumption of the full costs of the units by the purchasers. For the purpose of this paper, the interest rate from a U.S. Lender is assumed to be nine percent. AID's housing guaranty fee is .5 percent of the outstanding balance.

The Borrower intends to negotiate up to a 25-year loan with a U.S. investor which will provide for a 10-year grace period (during which only interest will be paid) and a 15-year repayment period of principal and interest. In the mortgage agreements with the homebuyers, this grace period will also apply (10-year grace -- 10-year principal repayment), thus reducing the monthly payments for the first ten years. A graduated payment mortgage will also be used, further reducing the initial monthly payment, yet maintaining the net interest rate.

c. Graduated Payment Loans: The interest rate to homeowners will be between 12 and 15 percent, reflecting the new ROKG policy. While the movement of HIG loan funds to a higher interest rate supports and strengthens the Government's hand in bringing interest rates to market levels, it has the potential of pricing certain low income families out of the housing market. In order to deal with this problem, a graduated payment mortgage will be adopted, which will allow low income families to obtain a mortgage and to have original payments approximately equal to those which would occur under a 9-1/2 percent mortgage rate. The following analysis assumes a new interest rate of 15 percent and that the first year's payment would be set at a level necessary to service the loan and the AID guaranty fee. After the first year, the loan payment increases at a rate of 10 percent per annum through the tenth year, at which point it levels out for the remaining term of the mortgage. The effective interest rate on the loan is approximately 15 percent over the entire life of the loan. This rate of increase appears feasible in the Korean economy, based on available income statistics. For example, based on monthly income of households living in all cities, the annual rate of increase from 1968 through 1976 has been 19.02 percent per annum, while the rate of increase for the head of the household over this period has been 21.54 percent. The similar figures, from 1975 to 1976, are 34 percent gain in income for the household, and a 36 percent gain for the head of the household. Thus, the 10 percent rate of increase appears quite manageable, when viewed in comparison to the rate of which income is increasing.

KNHC normally charges a monthly management and maintenance fee of about 15 percent of the initial payment on the loan to cover loan servicing and administration costs, as well as project management and building maintenance.

EXAMPLE
GRADUATED PAYMENT LOAN



Affordability this year is being based on the assumption that households are able to allocate 20 percent of their household income to the payments. It is estimated that an additional five percent is needed for costs of coal briquettes, other utilities, etc. In previous years, affordability was calculated on a combined 25 percent assumption.

Target income group ranges for each unit have been set based on the above assumptions on monthly carrying capacity of purchasers.

TARGET INCOME RANGES FOR EACH UNIT TYPE

<u>Unit Type</u>	<u>Size</u>	<u>Sales Price Ceiling</u>	<u>Approximate^{1/} Initial Monthly Payment</u>	<u>Approximate^{2/} Income Needed</u>	<u>Corresponding^{3/} Income Percentile</u>	<u>Target Income Group</u>	<u>Approximate Percentiles of Target Income Group</u>	<u>Percent of Total Number of Units</u>
<u>Seoul</u>								
Apt.	8 py.	2,300,000	10,500	52,500	7-9	50-65,000	10-15	8.9
"	10 py.	2,900,000	13,200	66,000	13-16	65-75,000	15-20	19.2
"	13 py.	3,300,000	15,000	75,000	19-22	75-90,000	20-30	23.7
<u>Secondary Urban Areas</u>								
Apt.	8 py.	2,300,000	14,700	73,500	18-21	70-90,000	20-30	2.2
"	10 py.	2,900,000	18,500	92,500	33-37	90-100,000	30-40	5.9
"	13 py.	3,350,000	21,350	106,750	40-50	100-110,000	40-50	29.6
Row House	8 py.	2,450,000	15,600	78,000	21-24	75-90,000	20-30	5.2
"	10 py.	2,850,000	18,200	91,000	32-36	90-100,000	30-40	2.1
"	11 py.	3,200,000	20,400	102,000	37-47	100-110,000	40-50	3.1

1/ Including Management Fee

2/ Assuming 20 Percent of Income Allocated to Payment

3/ See Discussion of Income Distribution Annex A (Based on EPB/BCS Survey with Range Compared to Other Income Studies)

INCOME LEVEL OF AID/HG HOUSING PROGRAMS

1973 - 1978

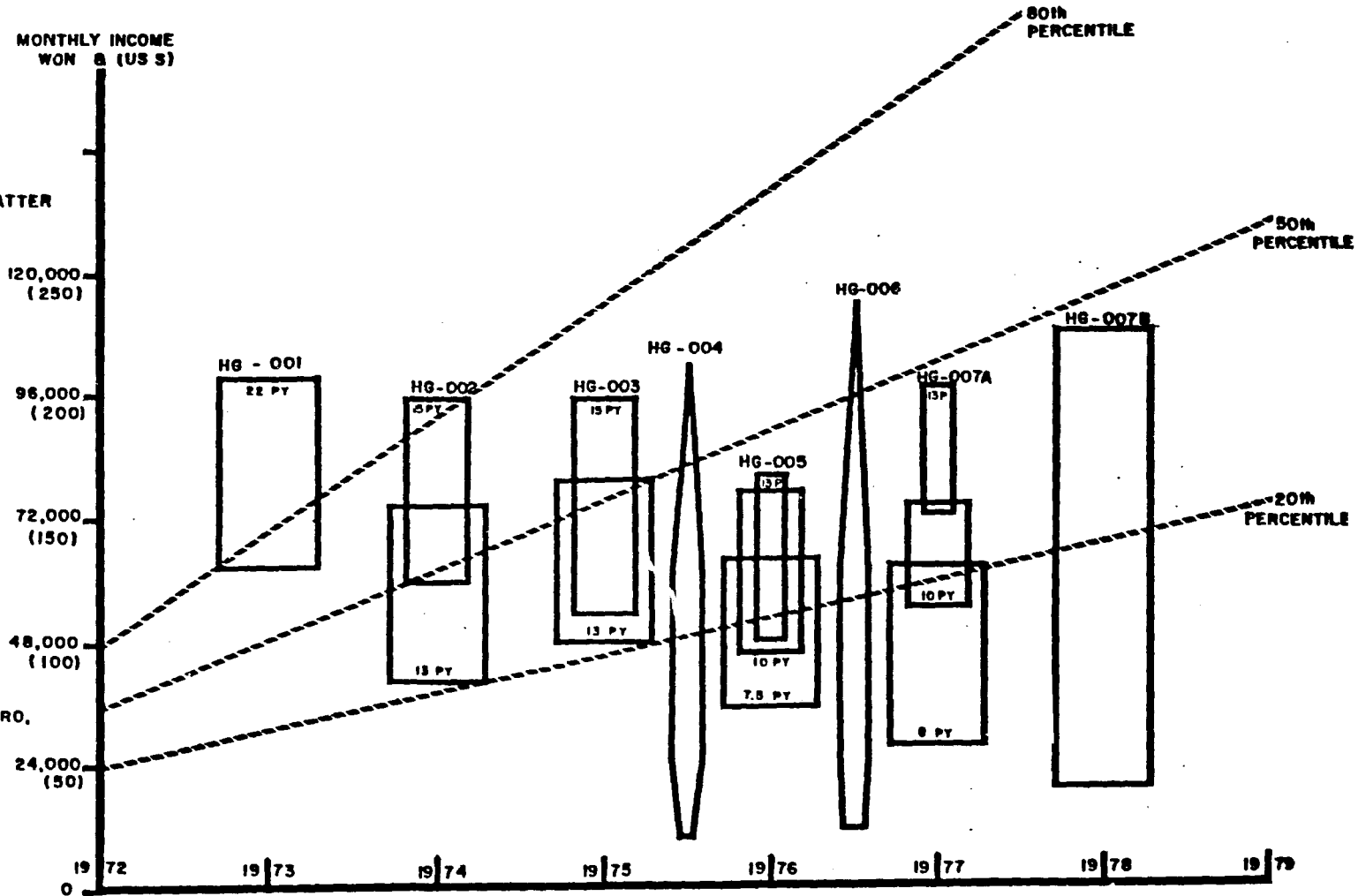
CURRENT PRICES

LEGEND

- HG - 001 • KNHC
- HG - 002 • KNHC
- HG - 003 • KNHC
- HG - 004 • SEOUL CITY SQUATTER
- HG - 005 • KNHC
- HG - 006 • KNHC SQUATTER
- HG - 007A • KNHC
- HG - 007B • KHB

SOURCE:

INCOME ESTIMATES ARE FROM
THE ECONOMIC PLANNING BOARD,
BUREAU OF STATISTICS.



2. Phase B - FY 1978

a. Korea Housing Bank

1) Target Income Groups

The target income groups of the 1978 HIG will be the same as the target for the Phase A (FY 77) HIG. The target groups will, however, be broadened to include families in market towns, members of cooperatives and credit unions, and families own existing shelter but desiring home improvement loans.

2) Affordability

KHB loans will be made on terms reflecting the ROKG decision to move mortgage interest rates closer to market rates, and employed in the Phase A (FY 77) HIG loan, i.e., between 12 and 15 percent interest, 20 years repayment. Within these terms and the income target groups, maximum loans will be established assuming a family can devote 20 percent of its income to shelter. Graduated mortgage payments based upon the experience of the FY 77 HIG loan will be utilized to maintain affordability by the target income groups at the higher interest rate.

3) Impact of HIG on KHB

In 1975 a total of 188,851 housing units were constructed in Korea, 94.4% of the planning goal for that year. The Korea Housing Bank planned to finance 10,400 units for private sector construction in 1975 from its banking funds (i.e., savings deposits) and actually financed 9,066, achieving 87.2% of its target. In 1975 the Bank made total housing loans from all sources including National Housing funds in the amount of 35,938,000,000 won, or approximately \$75 million. The number of units financed from all sources was 40,854 for a loan per unit of approximately \$1,832. As of April 1977, the Bank had outstanding approximately 169 billion won in housing loans, up from 129 billion won one year earlier, an increase of 40 billion won over the one-year period. In dollar terms, the increase in housing loans outstanding from April 1976 to April 1977 was approximately \$85 million. Based on the present trends, Korea Housing Bank can be expected to increase its mortgage loans from Banking and National Housing Funds by \$100,000,000 per year by 1978. The AID loan of \$25 million to be channeled through the Korea Housing Bank in 1978 will thus approximate about 25% of the total increase in housing loans which might be expected during that period.

While the AID loan will represent a massive increase in the amount of housing funds handled by the Korea Housing Bank, it appears feasible for the Bank to handle these funds if preparations are begun in the near future. The planned increase in Bank capital as well as its re-organization and branch expansion should provide an increased capability for the Bank to handle expanded housing finances.

C. Social Analysis

1. Impact on Beneficiaries

a. Phase A

Apartment living appears to have become not only acceptable but desired on the part of a growing number of Koreans in major cities. A recent survey of 500 college students in Seoul found that 88% of those polled hoped to live in apartments after their marriage; among the women surveyed, an even larger majority, 95%, desired apartment living. The reasons given for this popularity in the Korean magazine article citing these figures are the convenience and comfort of apartments and, particularly, the social status they are felt to confer on their residents.

If status can be derived from housing which is less costly than single family homes, that is one added benefit beyond many mentioned by a 749-person sample of HIG-financed apartment dwellers in a survey conducted by KNHC in February 1977. General health, recreation and safety were features of apartment life reacted to particularly favorably by those residents interviewed. Despite the fact that the residents had lived in the apartments only a few years, at most, a third of the sample (33.4%) felt that their children's health had improved since coming to the apartments. Almost all of those sampled (92.3%) stated that they lived near recreational facilities in the apartment, whereas about half this percentage (47.8%) were so favorably situated in their previous residence. And over two-thirds of the sample (67.0%) felt safer in the apartments, regarding crime and vandalism, than they had in the neighborhood they had lived in before. Yet, despite the prevalent notion that apartment living may lead to anomie and isolation, community spirit appeared high among the residents of KNHC-AID units sampled; a clear majority (70.0%) of these persons expressed a desire to participate in voluntary community works to improve the neighborhood.

The new feature of the FY77 program is row houses which will hopefully retain the positive social aspects of the prior apartment units while offering increased opportunity to the residents to expand their units as the need arises, according to their need and economic ability.

b. Phase B: KHB

The second phase of the proposed 1977/78 HIG program should result in at least two major and significant social fall-outs from the program. First, in liberalizing the terms for housing finance under the 1977 loan, the 1978 loan should provide the needed incentives for KHB to service lower-income people than were reached previously. The increased access to shelter for the poor which will result is a social benefit in and of itself.

¹Kang Sang-Yun, "Apartment Rush in Seoul". Newsreview, July 16, 1977, p. 18.

In addition, the KHB, through the 1978 loan program may become a catalyst for the support and/or creation of socially-oriented institutions and programs all over Korea. It is expected that a portion of the KHB loans will go to intermediate borrowers; these may be credit unions, cooperatives or municipalities. In the former instance, the funds will buttress these institutions, which were created to respond to the social needs of the people according to their own values and priorities. These are community-based institutions which draw on the leadership of the beneficiaries providing maximum popular participation. In the case of municipalities, it is believed that the KHB loans may be used to complement incipient infrastructure improvements in upgrading programs by providing long-term financing for home improvement and replacement loans. These upgrading programs, as has been seen in previous HIG-supported programs, are a most effective way to improve the physical, social and economic lives of the poorest residents of Korea's urban areas.

2. Role of Women

Whether married, single, divorced or widowed, women are equally eligible along with men for loans to finance housing and to own real property in their own right. Housewives, although appearing to be somewhat subservient to their husbands in public, play a major role in decision-making within the home. In the selection and purchase of a home, she usually participates with her husband in the decision-making process.

In the planning and design of housing, women's opinions and ideas are being taken more and more into consideration. KNHC employs full-time women architects who participate in the design of their new housing. Part-time women consultants from Korean universities also provide advice on housing planning and design. The KNHC Research Institute conducts special and periodic surveys and evaluations in which women play a prominent professional role in conducting.

In addition, the KNHC Research Institute has been carrying out socio-economic studies in squatter communities as a basis for planning area development. Women have proven to be more effective than men in carrying out these studies.

The KHB, although a traditional banking institution, has made some progress toward increasing the number of women in skilled, professional jobs. Of the approximately 2,000 employees of KHB, about 500 are women. Of this 500, about 150 are employed as accountants, bookkeepers and cashiers. The policy of KHB is to increase the employment of women in professional jobs.

D. Economic Analysis

1. ROKG Goals

The Fourth Five-Year Economic Development Plan, for the period 1977-81, sets three broad goals: the achievement of self-sustaining growth; promotion of social welfare; and increased productivity.

The main engine of economic growth will continue to be exports. Building on their remarkable past success in this area, the Koreans expect commodity exports to increase at an annual rate of 16%, in 1975 prices, producing consistent trade surpluses before the end of the Plan period. At the same time, as a means of maintaining Korea's concentration in areas of comparative advantage, the Plan places emphasis on shifting from unskilled to skilled labor intensive industries, such as electronics, machinery, and shipbuilding. The plan also calls for the achievement of self-reliance in investment financing through various domestic savings incentives. By way of these and other measures, the Koreans are aiming for an average annual real GNP growth rate of 9.2% over the Plan period.

Social welfare goals will be pursued with particular emphasis on improving Korea's already favorable income distribution structure - primarily by creating new jobs. The 9.2% GNP growth rate quoted above is considered necessary if new jobs are to be generated for a labor force that is expected to grow at 3% per year. More educational opportunities will be made available as a means of fostering upward mobility. To improve living conditions, large investments will be made in the areas of housing construction, pollution control, rural electrification, and water supply.

The third major goal of the Plan, increased productivity, will be pursued through various means. Investment in research and development is expected to rise to one percent of GNP by 1981. Further, the Plan envisages a gradual simplification of government controls over the economy, and a partial dismantling of import restrictions, both measures aimed at fostering fair competition and hence increased productivity.

In the past, Korea has demonstrated a remarkable ability to fulfill, and surpass, its economic development plan goals. The goals cited above are realistic, and well within reach barring any catastrophic external factors.

2. Current Trends

1976 was a vintage year for the Korean economy. Real GNP grew by over 15%; exports of goods and services increased by 56%, helping to slash the current account deficit to a modest \$283 million and foreign exchange reserves almost doubled to \$2.9 billion. As a result, the Koreans were able to accelerate the retirement of some of the heavy debt obligations that they were forced to incur during the difficult 1974-75 period.

Based on indications thus far, 1977 will be less spectacular than the preceding year, but very respectable nonetheless. While domestic economic activity has shown some sluggishness, the all-important external sector remains strong. The value of commodity exports for the first three months was consistent with the year-end target of \$10 billion. The performance of the services sector was particularly encouraging, thanks in part to a remarkable surge in Middle Eastern construction contracts received by Korean firms over the past year. While the most recent data on L/C arrivals indicate a possible weakening of export performance towards the middle of the year, prospects are still favorable for a modest current

account surplus for 1977 as a whole.

The main thrust of the government's efforts in 1977 will be to keep price inflation down to an acceptable level. The wholesale price index was up 11.4% on an annual basis through June and improvement is in order if inflation is to be kept within the 10% target for the year as a whole. The Government is likely to avoid any drastic deflationary action, however, that may place its 10% GNP growth target in jeopardy.

3. Balance of Payments and Debt Service Considerations

As noted above, Korea's balance of payments picture turned around dramatically in 1976, and prospects are for continued strong performance in this area. Commodity exports are surging ahead rapidly, thanks in part to the business recovery in developed countries. Services receipts, fueled by tourism and Middle East construction contracts, are showing even better results; and imports, while on the rise, are increasing at a slower pace. The official targets for 1977 call for commodity exports of \$10.0 billion, commodity imports of \$10.3 billion, and a net current account deficit of \$484 million. This, according to the Plan, is to be offset by net capital inflows totalling \$1.3 billion and an increase of \$0.8 billion in foreign exchange reserves, which would bring year-end FX holdings to \$3.7 billion. Judging from indications so far, exports of goods and services will probably exceed target levels, producing a modest surplus - rather than a deficit - on current account.

With foreign exchange reserves now building up more quickly than expected, and inflationary pressures looming on the horizon, the Korean government is taking steps to reduce the inflow of short-term capital. Through a gradual dismantling of incentives for short-term borrowing, the Government was successful in holding net short-term capital inflows to \$95.2 million during the first quarter of 1977 - as compared to \$273.5 over the corresponding period in 1976.

Korea's debt service ratio (payment of principal and interest on medium and long-term debt as a percentage of receipts from goods and services) was 12.7% in 1975, and 11.8% in 1976. It is projected to stay in that general range through the Fourth Plan period, and, if all goes well, to drop off gradually in subsequent years. This, of course, assumes the continued availability of concessional financing from international financial institutions, and the achievement of Fourth Plan targets.

4. Impact of the Proposed Housing Guaranty Program for CY 1977-78

a. Impact on Korea's Debt Situation and Balance of Payments

The proposed program would involve guaranteed loans totaling \$50 million, of which the first half would be committed in CY 1977 and the second half in CY 1978. Terms would be up to 25 years maturity, about 9-1/2% interest, with up to 10 years grace.

The above amounts can easily be accommodated within the framework

of Korea's development planning. Under the Fourth Five Year Plan (1977-81), the Koreans are counting on new concessional public loan commitments from abroad totalling \$1.3 billion in 1977 and 1978. Such loans are expected to provide the backbone for overall new long-term foreign capital commitments of \$2.3 billion and \$2.4 billion respectively, magnitudes which in turn are consistent with prudent debt and balance of payments management goals as reflected in the Plan. Assuming the Koreans stay within their debt planning limits - and they have a good track record in this regard - the \$50 million Housing Guaranty Program can only have a salutary effect on the achievement of Plan targets.

b. Impact on the Korean Construction Industry

The housing guaranty program should provide a modest degree of stimulation to Korea's building construction industry, which has experienced something of a slump during the first half of 1977 compared to the same period in 1976. In terms of floor area, construction permits during the first five months of 1976 totalled 8,964,000 square meters; the figure for the same period in 1977 was only 7,543,000 square meters, a 15.9% drop. Housing construction per se dropped 21.9% from 5,370,000 to 4,194,000 square meters.

If the construction industry is to hold its own in 1977 and achieve a modest recovery thereafter, building permits should attain a level of about 18,000,000 square meters for 1977 as a whole, and rise to 20,000,000 in 1978. Under these conditions, the proposed Housing Guaranty Program would contribute 1.3% (232,000 m²) and 1.2% (240,000 m²) to the total volume of building construction in 1977 and 1978, respectively.

c. Impact on Employment

1) Phase A. The total estimated cost of the projects is \$42 million (W 20 billion) of which the estimated labor cost is 25%. The estimated average wage in the construction industry at the end of CY 1977 is \$286 (W 138,000) per month. The estimated labor force requirement would be 36,280 worker/months or 3,019 worker/years to construct these projects. The total wages paid over a six months period (September 1977 through March 1978) will be about \$10.5 million (W 5 billion).

2) Phase B. It is estimated that during CY 1978 the employment generated will be about the same as Phase A but spread over a 12-month period.

E. Other Relevant Experience

Two agencies in addition to AID have been involved in Korean housing: the United Nations and the World Bank.

1. United Nations

The role of the United Nations in Korean housing has been a sponsor of technical assistance from 1974-75 for the preparation of a

national physical plan and a regional plan for Gwangju Region. The report on the Gwangju plan contained a number of findings which might be best summarized by the statement that there is a housing shortage in the Gwanju region, provoked by a dearth of long-term housing finance and a consequent lack of housing sites and means of building within the reach of the lowest income groups. The report recommended:

- a. A study of the possibility of expanded external finance for housing;
- b. The institutionalization of a private housing finance system;
- c. Comprehensive land studies, land banking for low-income housing and increases in the property tax rate to discourage land speculation;
- d. A revolving fund to finance purchase and development of land by cities;
- e. Training in housing, land development and management;
- f. Criteria for allocating credit in accordance with social objectives of providing housing for low-income people, rather than relating to size and quality of the house;
- g. The elimination of subsidies except for the lowest-income groups;
- h. Studies to be conducted on expandable minimal housing; and
- i. The establishment of a national center for research in housing and urban development.

While the U.N. has not undertaken any program to assist Korea in carrying out these recommendations, AID's program has been directly responsible for the implementation of recommendations a, e, f, g and h.

2. World Bank

The World Bank is presently supporting a modified \$2.6 million¹ sites and services project at three sites in separate cities in the Gwangju Region. This project is intended to accommodate a mix of population groups, mainly low-income, but also middle- and high-income groups. Each of the three project sites will contain from 500 to 700 units, with plot sizes ranging from 28 to 75 pyongs, 75% in the smallest category. The housing is to be provided by the KNHC which can be expanded by the homeowners. To lower costs, the units are designed in a duplex and quadruplex configuration.

Loans are available separately for lot purchase and housing finance. The size of the downpayment is directly proportional to the size of the lot or house to be purchased; the former ranging from 20% to 100% for the land and 20 to 50% for the house. Interest rates for serviced land financed by the Bank are for 15 years. Loans from the ROKG for purchase of the housing unit are for 7 years.

¹World Bank, "Appraisal of the Secondary Cities Regional Project in Korea", Annex 3, p. 2, Dec. 1974.

While not literally a sites and services project, but rather expandable housing, the World Bank Gwangju experience does offer certain innovative and potentially worthy contributions to the Korean housing field. The project represents the first attempt in Korea at providing long-term finance for lot purchase. The combination of small lot size and basic housing should reduce costs to a new low for single family housing. Nevertheless, due to high infrastructure and housing standards and high land development costs, the occupants of the smallest lots are now expected not to be lower-income than those reached by the 7.5 pyong apartments (between second and third deciles), as originally intended.

Implementation of the project has experienced delays and no sales have yet occurred against which an evaluation of the project can be made. In summary, too many questions are unresolved at this time to say more than the project does not appear to be fulfilling its original promise. The sites and services approach has yet to be demonstrated as a viable alternative to other forms of urban development for low-income persons in Korea.

The World Bank has also been negotiating with the KNHC on the development of row-expandable housing in various secondary cities. During July 1977, a World Bank Mission worked with KNHC on selecting sites, site planning, unit designs, costs and financing techniques. Under consideration were 8, 10, and 12 pyong expandable row houses. Site selection proved to be a difficult problem, even in the secondary cities, with site area limited, land costs high and appropriate location difficult. In discussions with KNHC, the World Bank team tried to promote the concept of large site development, with range of lot sizes and cross subsidy of land and infrastructure, to reduce costs of small lots.

KNHC resisted the concept on the basis of their legal constraints. KNHC also found that in a government institution, they could not get involved in the land adjustment scheme, widely used in Korea.

The World Bank is scheduled to return to Korea in October to further pursue development of a program.

IV. IMPLEMENTATION

A. Implementing Institutions - Roles and Responsibilities

1. Phase A - FY 1977

a. KNHC, as borrower, will have full responsibility for: negotiating and entering into a loan agreement with a U.S. Lender; negotiating and entering into an Implementation Agreement with AID; planning, design and construction of the projects sales and mortgage servicing of loans under the HG loan; and maintenance and management of the projects. In addition, they will have responsibility for monitoring income data and the continuing evaluation of the program.

b. KHB, in preparation for the 1978 Phase B loan, will be responsible for the implementation of the new housing finance policy, expanding operations, planning and conducting studies and modifying regulations and operations to meet the conditions of the HIG loan.

c. MOC will have continuing responsibility for the overall national housing policy and planning-giving policy guidance to both KNHC and KHB.

d. MOF, as supervisor of KHB, will maintain fiscal and financial oversight over KHB policy implementation and operations.

e. EPB, as the ROKG's overall planning and coordinating agency, will continue to give guidance in the integration of the social, physical and financial aspects of program implementation. Specifically, EPB will have the responsibility for getting the National Assembly approval of KHB as the borrower under Phase B, providing the ROKG guaranty to AID and a maintenance of value guaranty to KNHC.

2. Phase B - FY 1978

a. KHB, as the borrower, will have full responsibility for: negotiating and entering into a loan agreement with a U.S. Lender; negotiating and entering into an Implementation Agreement with AID; making loans to individuals and subborrowers; maintaining a reserve account; and servicing all loans and sub loans under the HIG loan. In addition, they will be responsible for continuing studies and research; monitoring income data; and the continuing evaluation of the program.

b. Subborrowers - Local municipalities, KNHC, Credit Unions, Cooperatives and other eligible subborrowers will, except as otherwise arranged with KHB, be responsible for the production of housing, originating and servicing the loans.

c. MOF, as supervisor of KHB, will maintain fiscal and financial oversight over KHB policy implementation and operations.

d. MOC will have continuing responsibility for national policy and planning -- giving guidance to KHB.

e. EPB, as the ROKG's overall planning and coordinating agency, will continue to give guidance on the integration of the social, physical and financial aspects of program implementation. Specifically, EPB will have the responsibility for providing the ROKG guaranty to AID and a maintenance of value guaranty to KHB.

B. Technical Assistance and Training - Phase A and Phase B

1. Housing Finance Specialist

This specialist will be assigned to and located in KHB and provide broad advice and assistance on all aspects of KHB policies and operations. The specialist will be assigned for two years beginning no later than January 1978. The specialist, a contract Technician will be recruited and nominated by SER/H and be subject to KHB approval. Initially the specialist will be funded by SER/H/W but subsequently the full costs will be reimbursed by KHB from the FY1978 loan.

2. Consultants

As identified in the Description of Project, Phase A, consultants will be made available beginning in October 1977. Costs of consultants will be funded by SER/H from fee income.

3. Training

a. KHB Staff -- The Housing Finance Specialist assigned to KHB and consultants will be utilized to conduct special seminars in the field of their particular expertise.

b. Overseas Training -- MOC has planned for nine persons/months (3 persons) of training in housing finance in the U.S. In addition, MOC has planned for ten person/months (3 persons) of training in housing policy in the U.S. and two and one-half person/months (7 persons) of training and observation of squatter upgrading programs in Asian countries. The ROKG will finance travel of the trainees and the employer will finance per diem and salary. SER/H will cover the U.S. training costs. The details of trainee selection, scheduling and training are to be worked out. Training is scheduled to occur between November 1977 and June 1978.

C. Evaluation

1. Phase A (FY 1977)

Evaluation of the FY 1977 program will follow the procedures established for the previous KNHC evaluation (see II.A.2.a.2). As in the previous evaluation, the KNHC Minimal Shelter Unit of the Research Institute will have primary responsibility for the evaluation. A base-line survey questionnaire will be given to a representative sample of the newly-arrived residents in the first quarter of 1978. Particular attention will be given to determining a basis for assessing the relative merits and shortcomings of the new row houses as compared to the equivalently priced apartment units. These and other topics deserving particular attention may be covered by more extensive case studies later in the year. Follow-up surveys to assess program impact will be conducted not earlier than two and not later than three years subsequent to the initial date of occupancy (later survey to measure longer-range program effects may follow). Institutional self-evaluation will proceed at three-month intervals. Both apartment/row houses and institutional evaluations will be the subject of bi-annual reports from the KNHC to AID/RHUDO.

2. Phase B (FY 1978)

The evaluation of second Phase (B) of this program will be designed to measure the impact of the housing finance policy changes and the operational policy and procedural changes of the KHB, rather than project-specific. Here the overall goal involves the improvement and expansion of the national housing finance system rather than the construction of a finite number of dwelling units. Nevertheless, the system being affected can be broken down into its relevant component parts and changes which take place on each part recorded and analyzed over time. For the purposes of evaluations, these parts would be:

a. The KHB as an organization

- 1) new branches
- 2) new staff
- 3) cost of administering new program
- 4) efficiency of savings and loan administration

b. Recipients of loans

- 1) increase in % of low-income
- 2) final borrowers vs. intermediary institutions, (i.e., retailer v. wholesaler); type of clientele reached by each.

c. Housing Finance Policy assessment

- 1) sources of finance
- 2) increase in savings
- 3) lending terms and volume
- 4) impact on housing finance
- 5) workability of finance policies

It is expected that this evaluation will be based on KHB records from ongoing operations. A unit within KHB will be assigned primary responsibility for the evaluation. As outlined above, much of the evaluation will center on changes taking place within the organization itself. Other changes will register from records of new borrowers. The principle of before and after measurement will be applied, in order to measure change, re: the organization and borrowers (low-income families throughout Korea). The base-line study would take place in early 1978, while the follow-up would come at 12-month intervals over a two to three year period from the date of program commencement. The housing finance specialist assigned to KHB will assist with the section of the evaluation dealing with housing finance policy. This should take place as part of the EOPS review following complete disbursement of the loan.

D. Aid Role and Responsibility

1. Monitoring

SER/H, through its Regional Housing and Urban Development Office (RHUDO), will monitor the implementation of both Phase A and Phase B. Since SER/H has had long experience with KNHC, monitoring of the KNHC part of Phase A will be minimal. This will be the first experience working with KHB so RHUDO will concentrate on working closely with and monitoring KHB at least during the early part of the implementation period.

2. Approvals

a. KNHC - Phase A. -- The basic conditions and approvals will be incorporated in the Implementation Agreement so no specific approvals during the implementation period are anticipated. Any variation from the Implementation Agreement will require approval by amendment. Technical reviews of specific projects will not be conducted because of the demonstrated capabilities of KNHC. RHUDO will, however, review and approve the initial and subsequent request for disbursement.

b. KHP - Phase A and B. -- Approvals of RHUDO will be required for at least the following:

- 1) Scope of work for studies;
- 2) Mortgage system to be adopted, i.e., variable,

stepped or graduated;

- 3) Evaluation system;
- 4) Loan application and approval process;
- 5) Income monitoring system;
- 6) Allocation of loans by category, i.e., individual,

local government, KNHC, Credit Unions, Cooperatives and others;

- 7) Sub loan commitments and agreements;
- 8) Reserve fund management;
- 9) Initial and subsequent requests for disbursement.

3. Disbursements

a. KNHC - Phase A. -- The initial and subsequent disbursements will be made on the basis of certification and verification of land purchased, work in place and construction completed.

b. KHB - Phase B. -- An initial disbursement will be made based on the estimated value of loans to be made over a given period of time. The second and subsequent disbursements will be made on the basis of the estimated value of loans to be made over a given period of time minus the value of loans not made under the previous disbursement.

4. Evaluation

The implementing institutions, KNHC and KHB will be conducting a continuing evaluation of their respective programs. Every twelve months they will submit to RHUDO an evaluation report for RHUDO review and discussion with the implementing agency. Upon completion of each program the implementing agency will prepare a final EOPS evaluation report. On the basis of this report, RHUDO will prepare a final EOPS evaluation report.

E. Implementation Plan and Schedule

1. Phase A. -- KNHC Program FY 1977

<u>Date</u>	<u>Activity</u>	<u>Responsibility</u>
September 1977	Authorization	AID/W
October	Select U.S Lender	KNHC
October	Negotiate and Sign Loan and Implementation Agreements	KNHC/U.S. Lender and SER/H
October	Host Country Guaranty	EPB
October	AID Guaranty to U.S. Lender	SER/H
October	Initial Disbursement	KNHC/SER/H and U.S. Lender
September 1977 Thru April 1978	KNHC Construction and Disbursements	KNHC/SER/H and U.S. Lender
November 1977 Thru April 1978	KNHC Sales and Mortgages	KNHC
October 1977	Evaluation - Establish base line data for KNHC Construction and Sales Program	KNHC
March 1978	Draft Evaluation Report and Review	KNHC/RHUDO
July August	Final Evaluation Report RHUDO Final Evaluation EOPS	KNHC/RHUDO RHUDO
July 1977	Implement Finance Policies and Expansion	KHB/MOF/MOC/EPB
October 1977 Thru April 1978	Planning and Conduct of Studies	KHB/MOF/MOC/RHUDO
October 1977 Thru April 1978	Selection, Scheduling and Assignment of Consultants	KHB/RHUDO
October 1977	Select and Nominate Housing Finance Specialist	SER/H/RHUDO/KHB
January 1978	Specialist on Job	SER/H/RHUDO
October 1977 Thru March 1978	Discussions and Planning For Phase B	KHB/MOF/MOC/RHUDO
February 1978	Set up Evaluation System For Housing Finance Policy	KHB/RHUDO
May 1978	Assessment of KHB Preparedness for Phase B and Recommendation for Authorization of Phase B HIG	RHUDO
July 1978	Authorize Phase B, HIG	AID/W

2. Phase B. -- KHB Program FY 1978

<u>Date</u>	<u>Activity</u>	<u>Responsibility</u>
July 1978	Authorization	AID/W
August 1978	Select U.S. Lender	KHB
August 1978	Negotiate and Sign Loan and Implementation Agreements	KHB/U.S. Lender and SER/H
August	Host Country Guaranty	EPB
August	AID Guaranty to U.S. Lender	SER/H
August	Initial Disbursement	KHB/U.S. Lender and SER/H
August 1978 to December 1979	Disbursements by U.S. Lender and KHB	KHB/U.S. Lender/SER/H and RHUDO
April 1978	Evaluation--Establish base line data and Evaluation Plan	KHB
December 1978	Evaluation Report and Review	KHB/RHUDO
June 1979	" "	" "
December 1979	Final Evaluation Report	KHB
January 1980	RHUDO Final Evaluation EOPS	RHUDO

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FOR EACH FY. THE FINAL FUNDING LEVEL WILL BE JUSTIFIED
IN THE PP. THE ASIA BUREAU WILL REQUIRE A PROGRESS,
EVALUATION REPORT BEFORE AUTHORIZATION OF THE FY 78 SEGMENT
OF THE PROGRAM. CHRISTOPHER

DRAFTED BY SER/H: GHAZEL: ES
APPROVED BY AA/ASIA: MADLER
SER/H: CRZINGER

ASIA/PD: RSQUEENER (INFO)
ASIA/TR/SDP: AJACOBS (INFO)
ASIA/PD: ZHAMM (PHONE)
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SUBJECT: KOREA HOUSING GUARANTY

1. PID FOR NEW HG PROGRAM FOR KOREA FOR FY 1977 AND 78 APPROVED BY ASIA BUREAU ON MARCH 4, 1977. AS APPROVED PID PROVIDES FOR THE DEVELOPMENT OF A SHELTER PROGRAM TO BE FUNDED IN FY 1977 AND 78 WITHIN THE RANGE OF 15 TO 25 MILLION DOLS. FOR EACH FISCAL YEAR OR A TOTAL OF 30 TO 50 MILLION DOLLARS FOR THE TWO YEAR PERIOD.
2. ONE OF THE OBJECTIVES OF THE PROGRAM IS TO CONTINUE TO PROVIDE ASSISTANCE TO THE ROKG IN ITS EFFORTS TO EXPAND ITS SHELTER PROGRAM FOR LOWER-INCOME FAMILIES. AN EFFORT IS ALSO BEING MADE TO ASSIST THE ROKG ADDRESS ITS HOUSING FINANCE PROBLEM. TO THIS END, AID SUBMITTED TO THE ROKG A HOUSING FINANCE REPORT PREPARED BY AID CONSULTANT RICHARD PRATT ASSOCIATES. THE ROKG IS CURRENTLY PREPARING ITS COMMENTS ON THE PRATT REPORT. NO FORMAL PRP WILL BE REQUIRED. HOWEVER, PRIOR TO PREPARING PP, SER/H WILL SUBMIT AN INTERIM DOCUMENT DESCRIBING ROKG RESPONSE TO THE PRATT REPORT AND PROPOSED ACTION ON RECOMMENDATIONS, ROKG HOUSING FINANCE OBJECTIVES, AND SER/H ANALYSIS THEREOF.
3. INTERIM DOCUMENT DESCRIBED PARA 2 ABOVE SHOULD DISCUSS EXTENT TO WHICH BASIC PRINCIPLES OF FINANCE POLICIES AND/OR POLICY FRAMEWORK MUST BE MUTUALLY AGREED BEFORE PROCEEDING WITH PP. ANALYSIS SHOULD PROVIDE EVIDENCE OF SUCH AGREEMENT AND CLARIFY HOW HG AND RELATED ASSISTANCE BY SER/H WILL HELP TOWARDS DEVELOPING A RATIONAL HOUSING FINANCE POLICY AIMED AT THE POORER MAJORITY.
4. REQUEST THAT YOU ADVISE THE RNNC OR MINISTRY OF CONSTRUCTION OF THE FOLLOWING MESSAGE ON AN INFORMAL BASIS: "THE PROGRAM DOES PERMIT FAMILY PLANNING TO BE ONE OF THE CRITERIA FOR ELIGIBILITY FOR A HOUSING UNIT FINANCED THROUGH THE HOUSING GUARANTY PROGRAM. ADDITIONALLY, A ROKG POLICY GIVING A MORE FAVORABLE POSITION TO AN APPLICANT WITH A SMALLER FAMILY FOR A HOUSING LOAN WOULD NOT PRESENT A PROBLEM TO AID. HOWEVER STERILIZATION AS ONE OF THE BASES FOR ELIGIBILITY WOULD NOT BE ACCEPTABLE TO AID."
5. THE PP WILL BE FOR A TWO (2) YEAR PROGRAM AT 30 TO 50 MILLION DOLLARS WITH AN EQUAL AMOUNT TO BE AUTHORIZED

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UNCLASSIFIED ANNEX B
Department of State

OUTGOING
TELEGRAM

PAGE 01 STATE 167953
ORIGIN AID-30

INFO OCT-01 EA-09 IGA-02 EB-07 /049 R

DRAFTED BY ASIA/PD: ZHAHN: FV
APPROVED BY AA/ASIA: JHSULLIVAN
DAA/ASIA: MHBADLER
SER/H: RZENER (DRAFT)
SER/H: CHEFFLEY (PHONE)
ASIA/PD: ARLOVE, SER/H: GHAZEL (DFT)
ASIA/PD: JRMCCABE, ASIA/PD: MMEPHL
ASIA/TR/SDP: AJACOBS (DRFT)
ASIA/ID: WCHING (DRAFT)
PPC/DPRE: JWELTY (DRAFT)

DESIRED DISTRIBUTION

XG ACTION 8ASIA CHRON 2 3 4 6 INFO IDC PPC GC GCFLD HO GCASIA 4ASIA
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UNCLAS STATE 167953

AIDAC

E.O. 11652: N/A

TAGS:

SUBJECT: KOREA HOUSING GUARANTY

REF: (A) WALSH/ZENGER MEMO DATED 6/3/77, (B) SEOUL 5296

1. BASED ON REVIEW OF REF. A AND ATTACHMENTS, AID/W
CONCURS IN RHUDO'S PREPARATION OF PROJECT PAPER FOR FY 77
AND 78 HG PROGRAM IN KOREA. VANCE

UNCLASSIFIED

**PROJECT DESIGN SUMMARY
LOGICAL FRAMEWORK**

**Life Project:
From FY 1977 to FY 1978
Total U.S. Funding \$50 M
Date Prepared: 7/12/77**

Project Title & Number: Housing Guaranty Program - Korea 489-IIG-007 A and B

GOAL	INDICATORS	VERIFICATION	ASSUMPTIONS
<p>Improve shelter conditions of low income families in urban areas through expansion and improvement of national housing finance system.</p>	<p>Resources mobilized by finance system are equitably available to low income families for the improvement of their shelter conditions.</p>	<ol style="list-style-type: none"> 1. EPB and MOC statistics and plans. 2. KHB savings and lending data and evaluations. 3. KNHC housing production data and evaluations. 4. SER/H evaluations. 	<ol style="list-style-type: none"> 1. ROKG implements housing policies including newly adopted housing finance policy. 2. Housing finance resources can be increasingly mobilized domestically by new finance policy. 3. Public sector housing finance will be increasingly made available to low income families.
PURPOSE	END OF PROJECT STATUS		
<p><u>Phase A FY 1977</u> <u>Transition Phase</u></p> <ol style="list-style-type: none"> 1. Make long term finance and dwelling units available which are affordable by low income families in more urban areas throughout Korea. 2. Simultaneously (in preparation for Phase B) assist and support the implementation of the ROKG new housing finance policies and developing their housing finance system and institutions. 	<ol style="list-style-type: none"> 1. Increase total annual production and sale of units in more urban areas than in prior years. 2. Implementation of finance policies mobilizes more savings and makes more long term financing available. 	<ol style="list-style-type: none"> 1. MOC and KNHC reports and records. 2. KHB and MOF reports and records. 3. SER/H monitoring and evaluation. 	<ol style="list-style-type: none"> 1. KNHC can produce units affordable by low income families in more urban areas. 2. ROKG can and will implement new housing finance policies. 3. KHB can become the national housing finance institution.

PURPOSE	END OF PROJECT STATUS	VERIFICATION	ASSUMPTIONS
<p>Phase B - FY 1978 Finance System Phase 1. Directly assist national housing finance system and institution in mobilizing savings and making non-subsidized loans available to low income families through a variety of loan types.</p>	<p>Phase B.</p> <ol style="list-style-type: none"> 1. KHB provides effective savings programs which also reach low income families. 2. KHB lending policies provide long term financing for low income families for serviced lots, building materials purchase, home improvement loans, and for new units of less than 13 pyong 3. KHB is an efficient housing finance institution serving uniformly a broad range of income groups. 	<ol style="list-style-type: none"> 1. KHB reports and records and self evaluation. 2. SER/H monitoring and evaluation. 	<ol style="list-style-type: none"> 1. KHB can effectively mobilize savings, including low income families. 2. KHB revises lending policies, to provide variety of loan types available to low income families. 3. KHB can efficiently serve a broad range of income groups, including low income groups.
<p>OUTPUTS</p>	<p>MAGNITUDE</p>		
<p>Phase A FY '77</p> <ol style="list-style-type: none"> 1. Produce and sell dwelling units affordable by low income urban families in Seoul and secondary cities. 2. Implement housing finance policies: i.e. interest on savings; uniform lending terms; other significant changes. 	<ol style="list-style-type: none"> 1. 6,750 dwelling units built and sold affordable by low income families. 2. Laws and decrees passed and issued, regulations revised, and policy changes reflected in practice. 	<ol style="list-style-type: none"> 1. KNHC reports and records. 2. MOC and KHB reports, records and documents. 	<ol style="list-style-type: none"> 1. KNHC can build units at cost planned and sell units to low income families as scheduled. 2. MOC and KHB implement policies as planned.

OUTPUTS	MAGNITUDE	VERIFICATION	ASSUMPTIONS
<p>Phase A FY '77 (Cont'd)</p> <p>3. Studies of critical areas in housing finance system</p> <p>4. Increase access by savers and borrowers to savings and lending services</p>	<p>3. Studies are set up and conducted.</p> <p>4. KHB establishes new branches, and recruits and trains new staff and branches in operation.</p>	<p>3. Completed studies and reports.</p> <p>4. KHB reports and records.</p> <p>5. SER/H monitoring and evaluation.</p>	<p>3. Studies will be set up and conducted in timely and useful manner.</p> <p>4. KHB can carry out plans for expansion.</p>
<p>Phase B FY '78</p> <p>1. Provide finance through the national housing finance system for loans for the purchase of new dwelling units serviced lots, building materials and the improvement of existing units affordable by low income families in urban areas throughout Korea.</p> <p>2. Increasing access by savers and borrowers to savings and lending services especially low income families.</p> <p>3. Systematic evaluation of national housing finance system.</p>	<p>1. Loans made to about <u>15,275</u> low income families throughout Korea.</p> <p>2. KHB continues to expand by adding new branches and staff.</p> <p>3. KHB establishes and has in operation an evaluation unit or service.</p>	<p>1. KHB reports and records.</p> <p>2. KHB records and reports.</p> <p>3. KHB reports and records.</p> <p>4. SER/H monitoring and evaluation.</p>	<p>1. KHB and subborrowers can administer loans to low income families.</p> <p>2. KHB savings and lending activities justifies expansion.</p> <p>3. KHB can effectively evaluate its operations.</p>

INPUTS	MAGNITUDE	VERIFICATION	ASSUMPTIONS
<p><u>Phase A FY '77</u> <u>Host Country</u></p> <ol style="list-style-type: none"> 1. KNHC technical, administrative and evaluation services. 2. Downpayments of final borrower's. 3. Funding of studies. 4. KHB administrative services. 5. MOC and MOF policy implementation services. 	<ol style="list-style-type: none"> 1. KNHC maintains staff, to implement program. 2. \$17 m in downpayments made. 3. Funds committed and expended. 4. Number of new branches and staff. 5. MOC and MOF maintain or expand staff. 	<ol style="list-style-type: none"> 1. KNHC reports and records. 2. KNHC reports and records. 3. KHB reports on studies. 4. KHB reports and records. 5. MOC and MOF reports. 	<ol style="list-style-type: none"> 1. KNHC can maintain staff. 2. Final borrowers have adequate savings. 3. KHB has adequate budget to fund studies. 4. KHB has adequate budget for expansion and additional staff available. 5. MOC and MOF continue to support policy implementation.
<p><u>AID</u></p>			
<ol style="list-style-type: none"> 1. Housing Guaranty 2. Technical Assistance 3. SER/H Washington and RHUDO planning, preparation, monitoring and evaluation. 	<ol style="list-style-type: none"> 1. \$25 million authorized, contracted, and disbursed. 2. Technicians and consultants provided as required. 3. SER/H Washington and RHUDO maintain staff support. 	<ol style="list-style-type: none"> 1. SER/H records. 2. Technicians' and consultants' reports. 3. SER/H records. 	<ol style="list-style-type: none"> 1. Authorized, contracted with U.S. investor, and fund disbursed. 2. Availability of technicians and consultants. 3. Continued SER/H support and maintenance of RHUDO staff.

INPUTS	MAGNITUDES AND INDICATORS	VERIFICATION	ASSUMPTIONS
<p><u>Phase B FY '78</u> <u>Host Country</u></p> <ol style="list-style-type: none"> 1. KHB administrative services and staff training. 2. Sub-borrowers administrative services. 3. Downpayments and other equity of borrower/beneficiaries. 4. MOC and MOF policy implementation services. 5. Support of Housing Finance Specialist. <p><u>AID</u></p>	<ol style="list-style-type: none"> 1. KHB expands staff. 2. Sub-borrowers provide adequate staff to process and make loans. 3. \$12 m downpayments and other equity provided. 4. MOC and MOF maintain staff for this purpose. 5. Technician on board. 	<ol style="list-style-type: none"> 1. KHB reports and records. 2. Sub-borrowers reports and records. 3. KHB reports and records. 4. MOC and MOF records. 5. KHB and SER/H records. 	<ol style="list-style-type: none"> 1. KHB has adequate budget for expansion. 2. Sub-borrowers have adequate budget and staff. 3. Borrower/beneficiaries have adequate savings. 4. MOC and MOF continue to support policy implementation.
<ol style="list-style-type: none"> 1. Housing guaranty 2. Consultant services. 3. SER/H Washington and RHUDO planning, preparation, monitoring and evaluation services. 	<ol style="list-style-type: none"> 1. \$25 million authorized, contracted and disbursed. 2. Consultants provided as required. 3. SER/H Washington and RHUDO maintain staff support. 	<ol style="list-style-type: none"> 1. SER/H records. 2. Consultants reports. 3. SER/H Washington and RHUDO records. 	<ol style="list-style-type: none"> 1. Authorized, contracted with U.S. investor and fully disbursed. 2. Availability of consultants. 3. Continued SER/H support and maintenance of RHUDO staff.

Income Distribution in Urban Korea

The primary source for urban income distribution analysis in Korea is the regular family income and expenditure survey of the Economic Planning Board, Bureau of Statistics (EPB/BOS) conducted monthly and published quarterly. Though the sample design has been revised, it is generally felt that the survey is under representative of the upper income and the very lowest income groups. Comparing trends in the statistics with trends in national accounts, there are some indications, probably because of this possible bias, that average and median incomes are somewhat higher than the survey indicates though this is difficult to measure.

Other studies provide alternative analyses, The World Bank (IBRD) has published income distribution statistics for 1971. The Bank has also extracted urban income distribution figures from an unpublished 1968 survey done by the Economic Planning Board and the Bank of Korea (EPB/BOK). Another study was done by Chung Ang University in 1966. While there are significant differences from one survey to another at the extreme low and high incomes, it is interesting to note that there is not a lot of difference in the area of the 10th to 50th percentiles where analysis of low income projects is concerned. The table below shows the range indicated:

Percentage share of total income by population decile groups

<u>Decile</u>	<u>EPB/BOS^{1/}</u>	<u>IBRD</u>	<u>EPB/BOK^{2/}</u>	<u>Chung Ang ^{2/}</u>	<u>Range:</u>	
	<u>1975</u>		<u>1968</u>		<u>Low</u>	<u>High</u>
0-10	3.1	3.4	2.5	2.0	2.0	3.4
10-20	4.2	4.7	3.9	4.0	3.9	4.7
20-30	6.2	5.7	5.6	6.5	5.6	6.5
30-40	6.9	6.6	6.8	7.5	6.6	7.5
40-50	7.7	7.4	6.9	8.5	6.9	8.5
50-60	9.1	8.6	7.7	9.5	7.7	9.5
60-70	10.3	9.8	9.6	10.5	9.6	10.5
70-80	12.0	11.6	11.3	12.5	11.3	12.5
80-90	15.5	14.5	15.2	15.0	14.5	15.5
90-100	<u>25.0</u> <u>100.0</u>	<u>27.7</u> <u>100.0</u>	<u>30.5</u> <u>100.0</u>	<u>24.0</u> <u>100.0</u>	<u>24.0</u> <u>100.0</u>	<u>30.5</u> <u>100.0</u>

1/ Converted to decile groupings from 11 income brackets usually shown in statistics

2/ From a World Bank staff working paper, "Economic Growth and Income Inequality in Korea," Feb., 1976

Whichever survey is more accurate, the range can be expressed in terms of the EPB/BOS statistics which fall in about the middle. In the second to fifth population deciles, the EPB/BOS statistics appear to be no more than 5- to 12% higher or lower than the highest or lowest level indicated by any of the other studies.

Comparison of income distribution from EPB/BOS survey with high
and low range of 3 other studies

<u>Decile</u>	<u>Low Range of other Studies Relative to EPB/BOS</u>	<u>Percentage Share of Total Income from EPB/BOS</u>	<u>High Range of Other Studies Relative to EPB/BOS</u>
10-20	-7.7%	4.2	+ 11.9%
20-30	-10.7%	6.2	+ 4.8%
30-40	-4.6%	6.9	+ 8.7%
40-50	-11.6%	7.7	+ 10.4%

Since the EPB/BOS survey is a continuing survey and published regularly, it makes sense to use it as the base for project analysis. Knowing what the range of its accuracy is. As the survey is further improved from time to time, that range should get closer.

Since projections of future incomes from current statistics have to be made, it is important to know whether or not the income distribution is changing over time. A comprehensive paper on this subject, "Economic Growth and Income Inequality in Korea," a World Bank staff paper published in Feb., 1976 concludes that, "...no serious deterioration of the income distribution on a nationwide basis took place during the period (1959-1970)." Unless additional studies are done, it can be assumed that condition still holds and that projections can be made on the basis of little or no change in income distribution.

Incomes have grown on an average of 20% per year over the past five years according to the EPB statistics, but over 33% between 1974 and 1975 and over 34% between 1975 and 1976 as shown in the table below. In making projections of income to the end of 1977 and 1978, it is assumed, based on economic forecasts, that growth will still be strong

but will slow off from the remarkable rate reached in 1976. Projections are based on 25% growth in 1977, and 20% in 1978.

Growth in average urban income based on EPB/BOS survey

<u>Year</u>	<u>Average Total All Cities (won per month)</u>	<u>Growth</u>	<u>Cost of ^{1/} Living Index</u>	<u>Real Growth</u>
1968	23,830		N.A.	
1969	27,800	16.7%	42.3	
1970	31,770	14.3%	49.1	-1.8%
1971	37,660	18.5%	55.7	+5.1%
1972	43,120	14.5%	62.2	+2.8%
1973	45,850	6.3%	64.2	+3.1%
1974	53,710	17.1%	79.8	-7.2%
1975	71,610	33.3%	100.0	+8.0%
1976	95,980	34.0%	115.3	+18.8%
<u>Projected</u>				
1977	119,975	25.0%	132.6	+10.0%
1978	143,970	20.0%	152.5	+ 5.0%

1/ Overall consumer price index, all cities, EPB

It is assumed that the income distribution for Seoul is the same as for all cities though the level of incomes is somewhat higher

Projected income distribution, all cities based on EPB/BOS survey

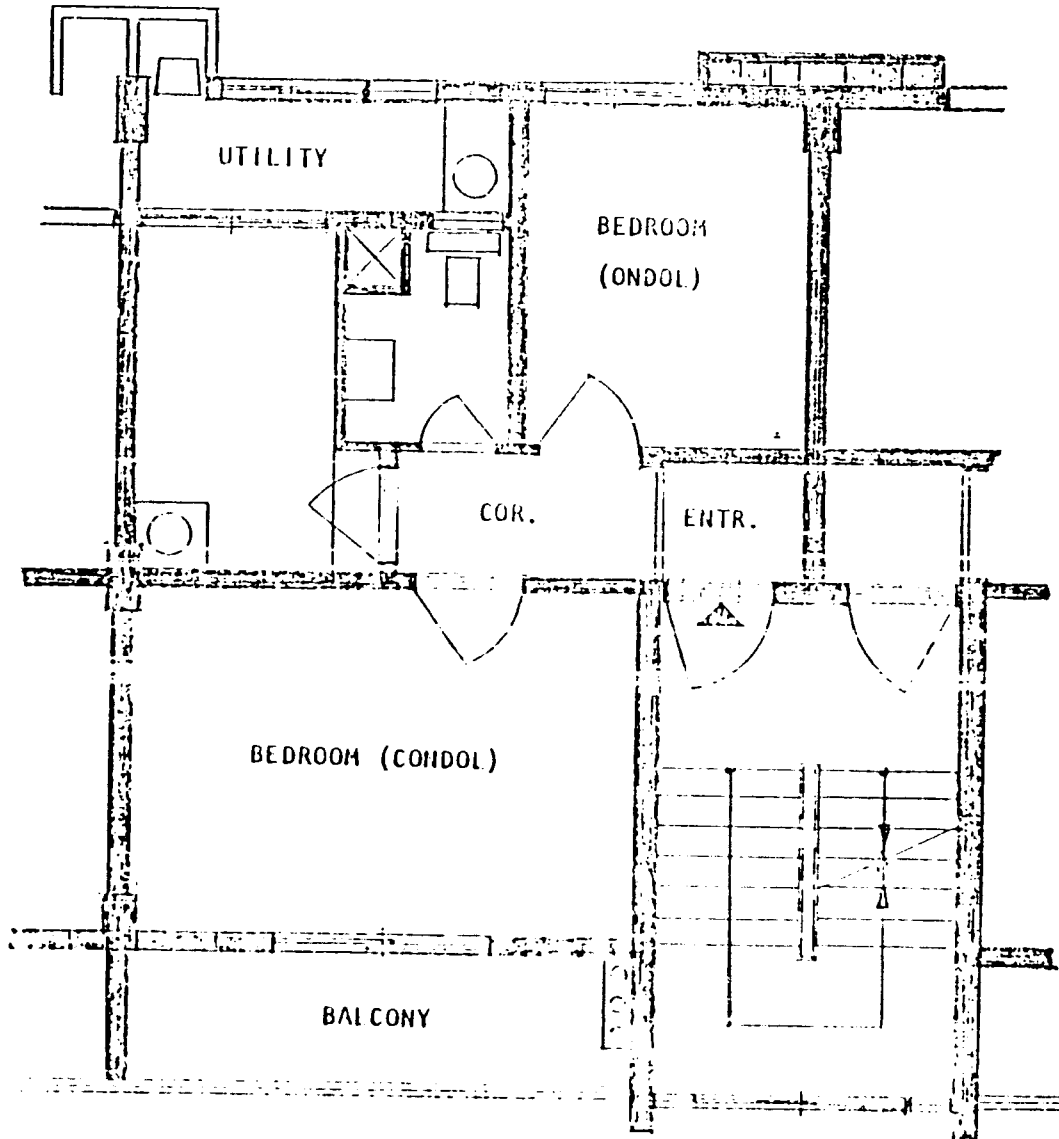
<u>Percent of Population</u>					
	<u>Cumulative</u>	<u>Mid-1975</u>	<u>Fourth Quarter 1976</u>	<u>Fourth Quarter 1977</u>	<u>Fourth Quarter 1978</u>
3.8	3.8	0-20,000	0-33,700	0-42,100	0-52,600
7.0	10.8	20-30,000	34-49,000	43-61,300	53,76,400
14.9	25.7	30-40,000	50-65,400	62-81,800	77-102,000
16.8	42.5	40-50,000	66-81,700	82-102,100	103-127,500
14.6	57.1	50-60,000	82-98,100	103-122,600	128-153,000
11.3	68.4	60-70,000	99-114,400	123-143,300	154-178,500
7.6	76.0	70-80,000	115-130,800	144-163,500	179-204,000
6.0	82.0	80-90,000	131-147,100	164-183,900	205-229,500
3.9	85.9	90-100,000	148-163,500	184-204,400	230-255,100
3.1	89.0	100-110,000	164-179,800	205-224,300	256-280,500
11.0	100.0	over 110,000	over 179,800	over 224,300	over 280,500
Average Income		(actual) 65,540	(actual) 107,140	(projected) 133,900	(projected) 167,100
Median Income		52,500	85,900	107,400	134,000
Growth per Year				+25%	+20%

Note: Incomes shown here are mid-1975 and fourth quarter 1976, 77, and 78 in order to show incomes at approximately the time of year HG financed units will be sold; not to be confused with previous table which shows average incomes for the year.

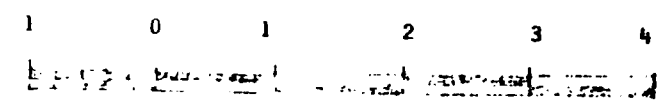
10 Py TYPE '13-S' APARTMENT UNIT

ANNEX E

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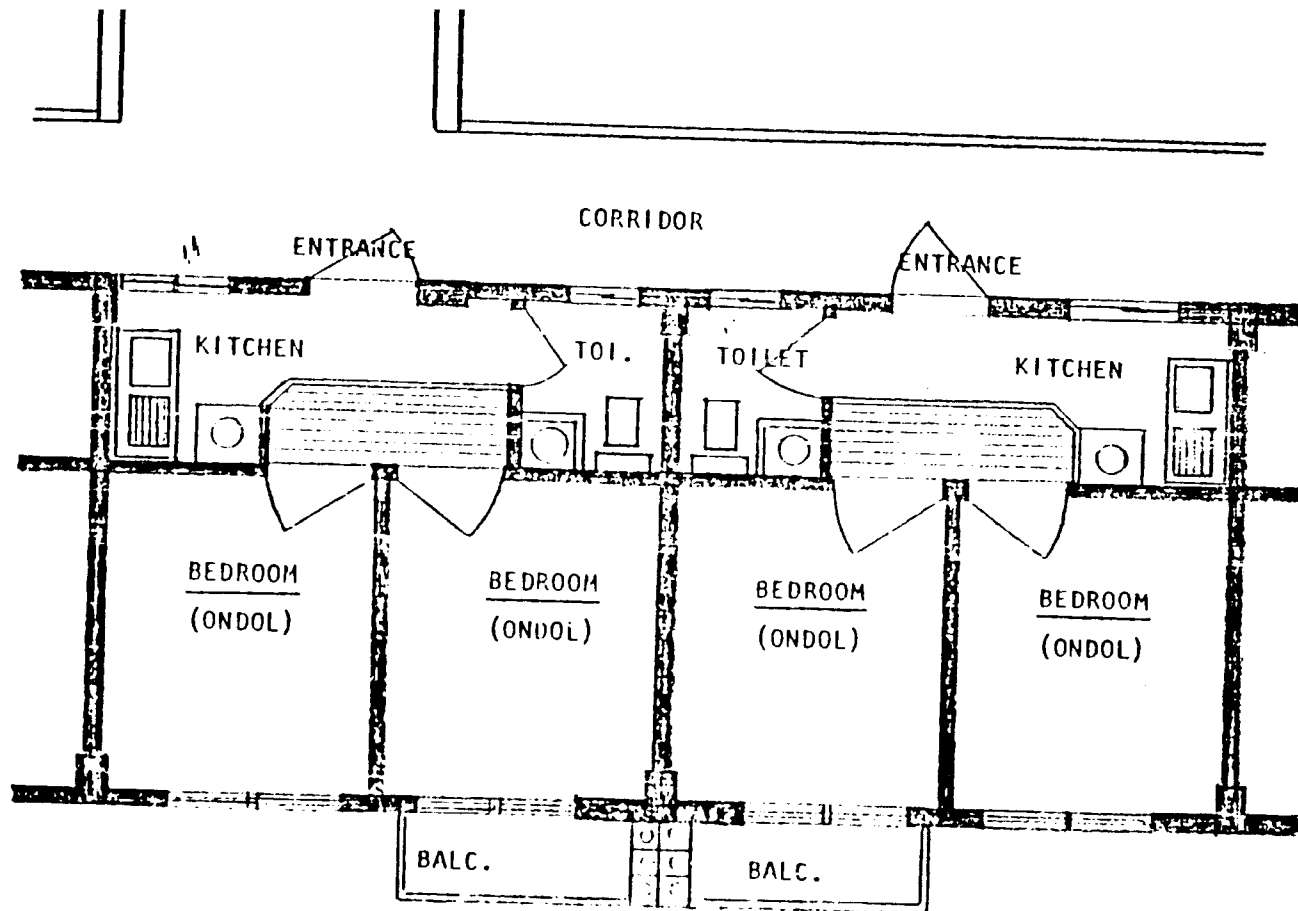


floor plan

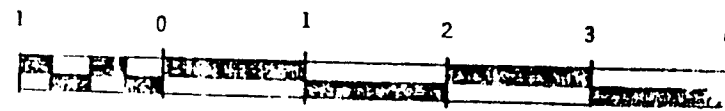


GRAPHIC SCALE

8.3 TYPE APARTMENT UNIT



floor plan

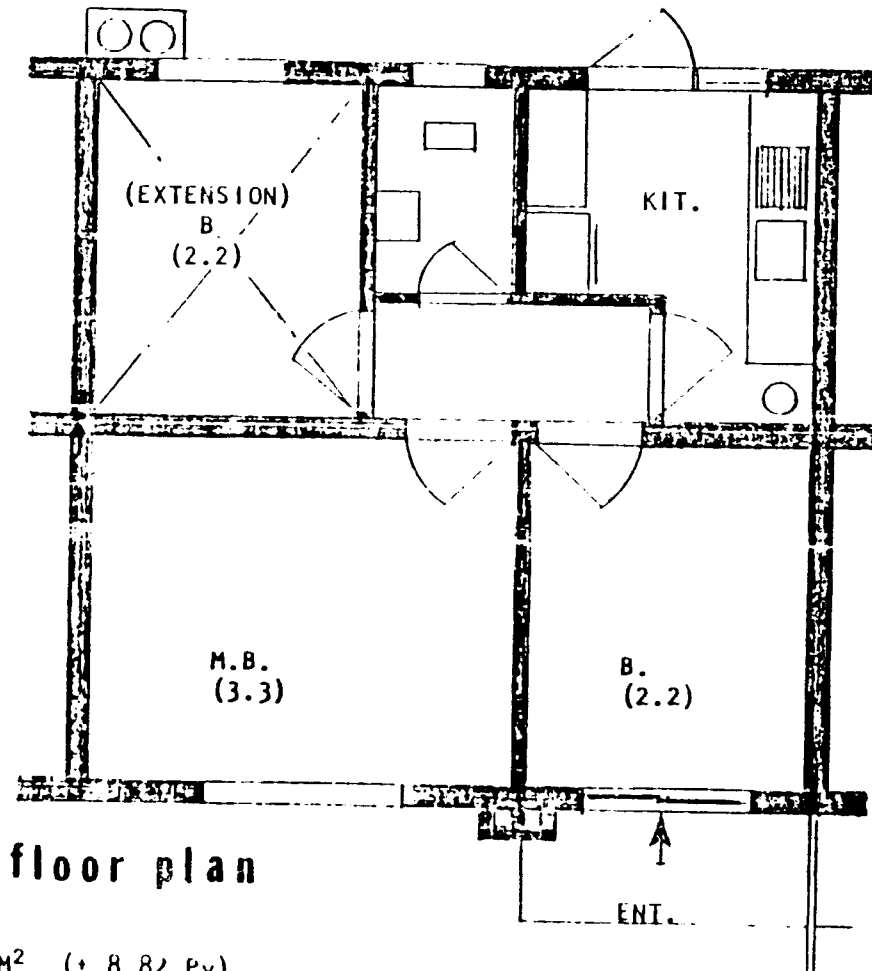


GRAPHIC SCALE

8 Py TYPE 'S' ROW HOUSE UNIT

ANNEX E

45



floor plan

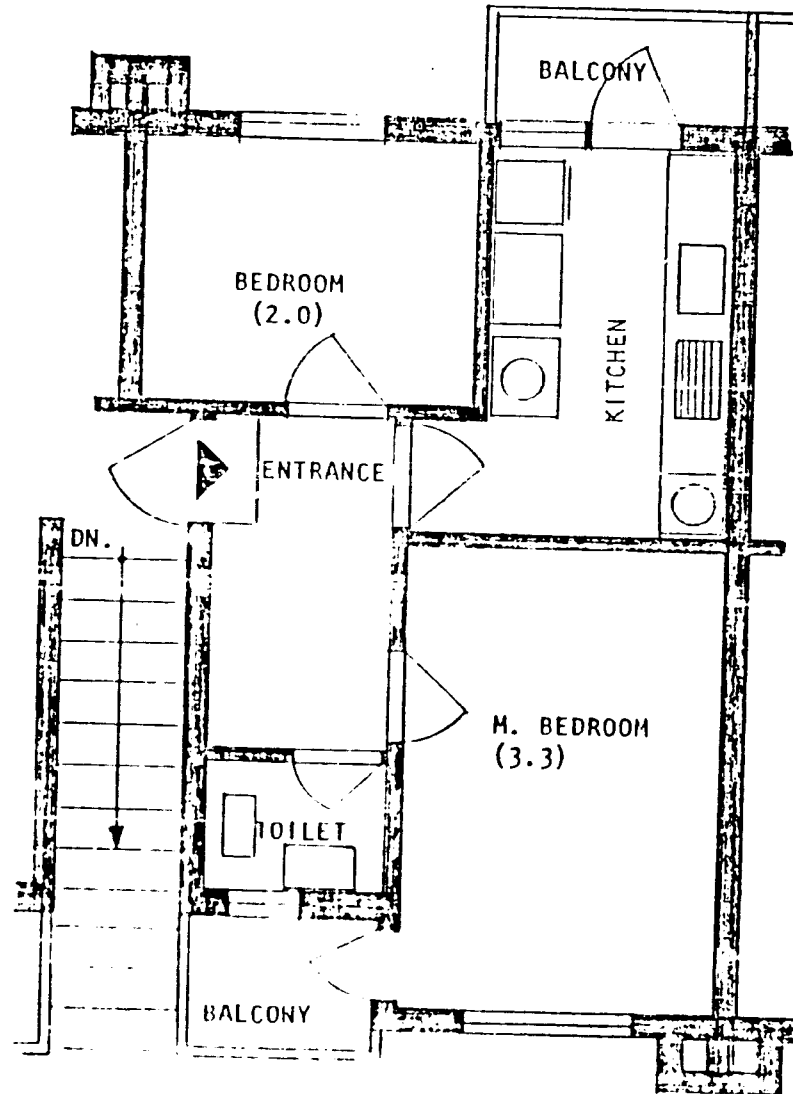
WITHOUT EXTENSION 29.1 M² (± 8.82 Py)

WITH EXTENSION 36.0 M² (± 10.91 Py)

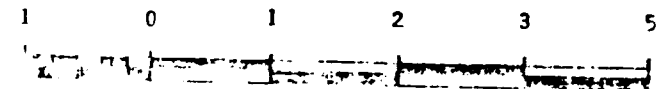


GRAPHIC SCALE

10 Py ROWHOUSE UNIT



2nd floor plan

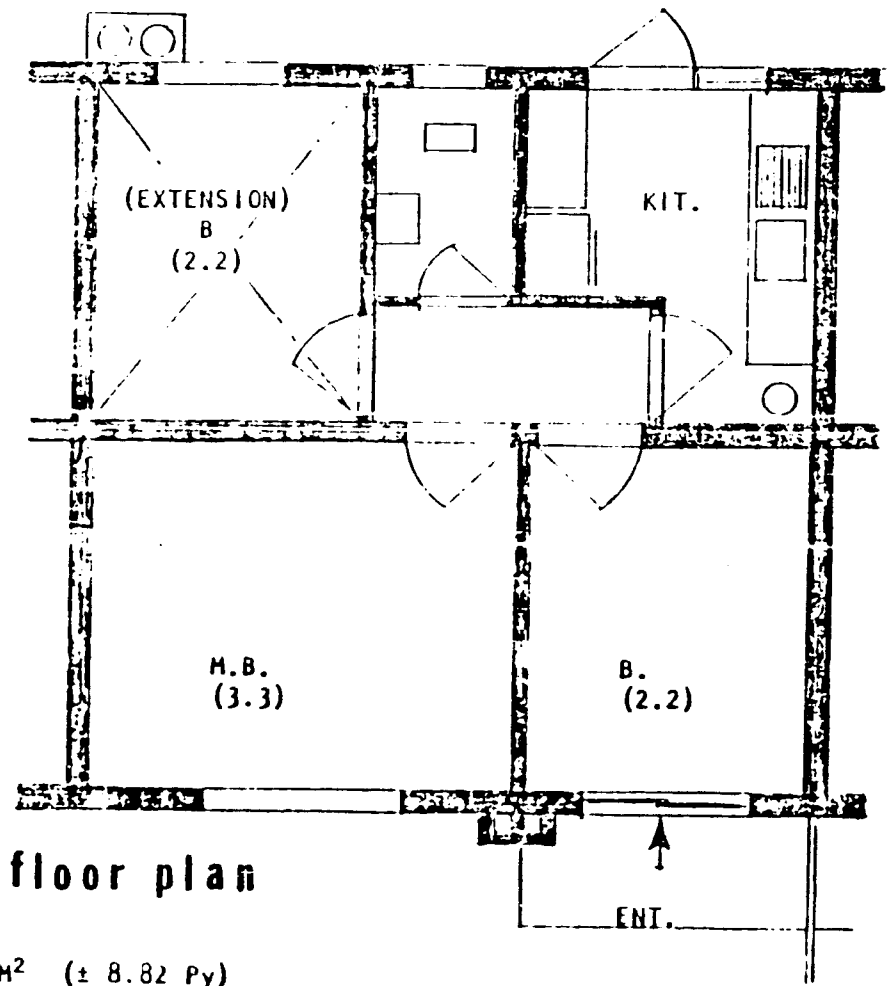


GRAPHIC SCALE

8 Py TYPE 'S' ROW HOUSE UNIT

ANNEX E

87



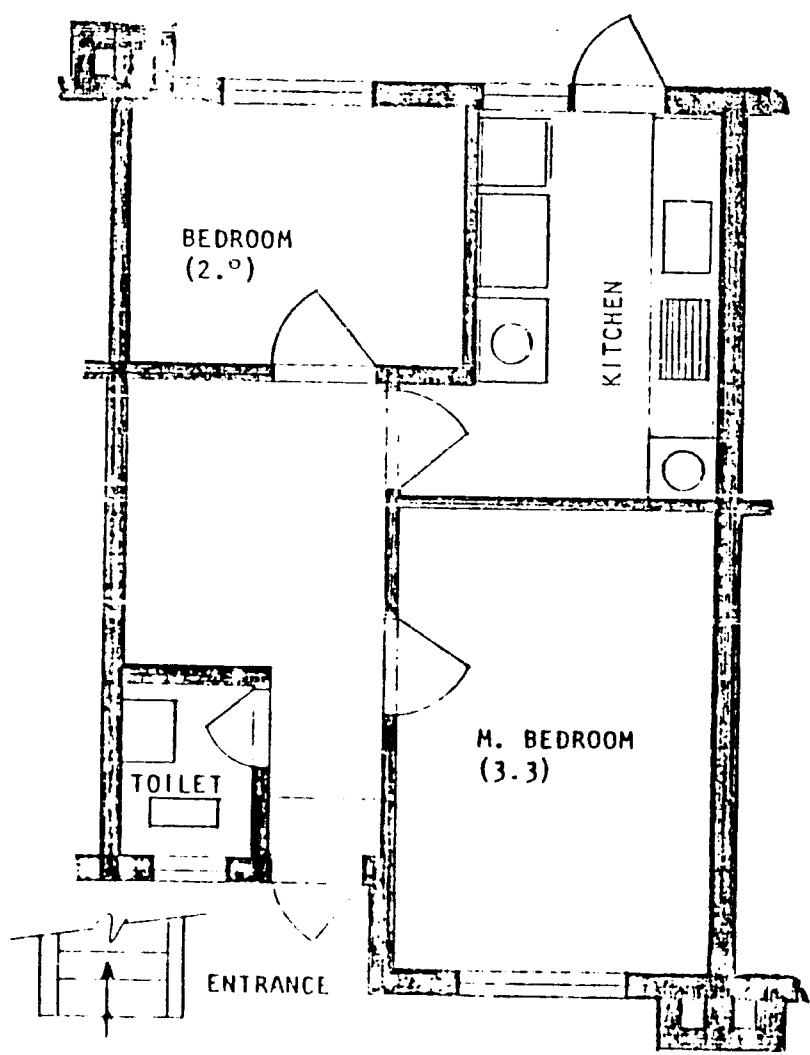
floor plan

WITHOUT EXTENSION 29.1 M² (± 8.82 Py)

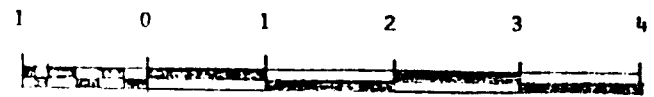
WITH EXTENSION 36.0 M² (± 10.91 Py)



GRAPHIC SCALE



1st floor plan



GRAPHIC SCALE

87/46

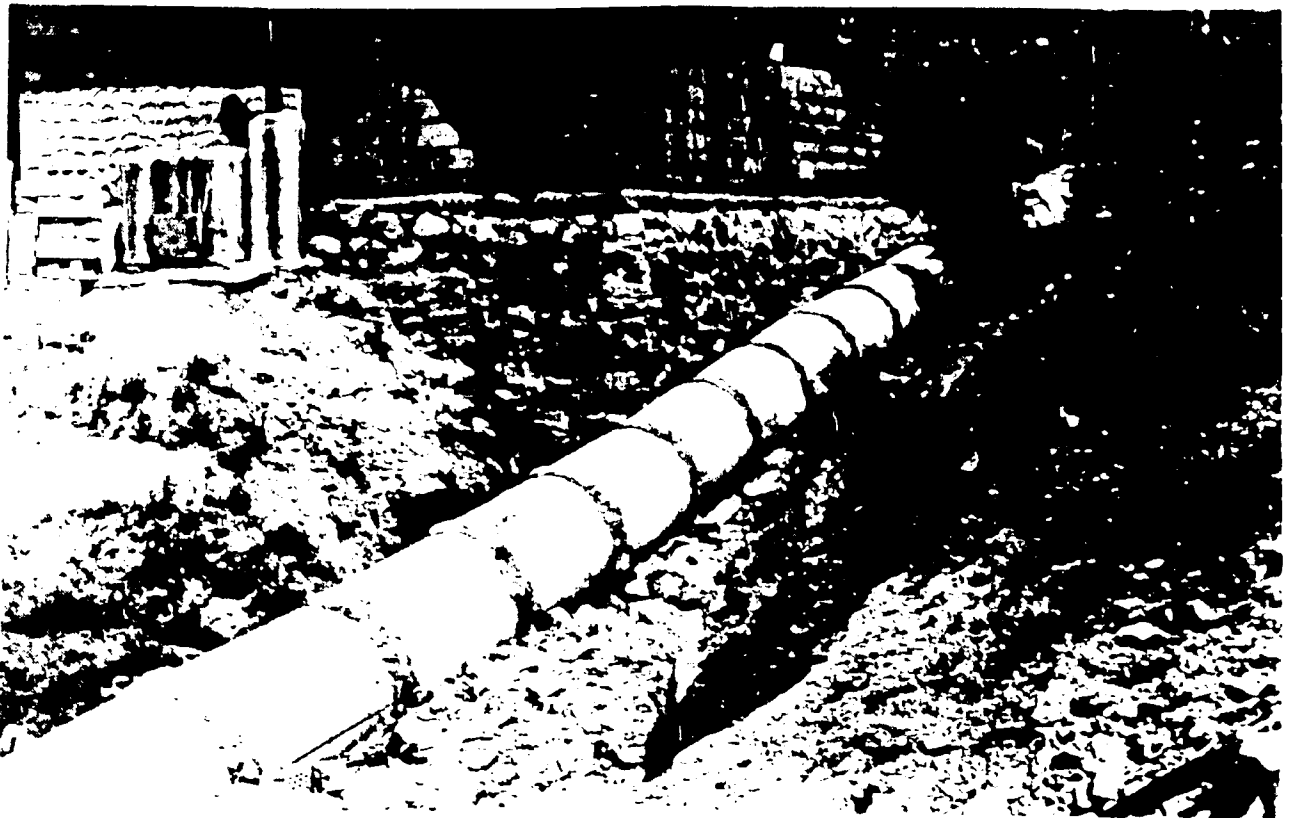
Orsoo No. 2 & 3

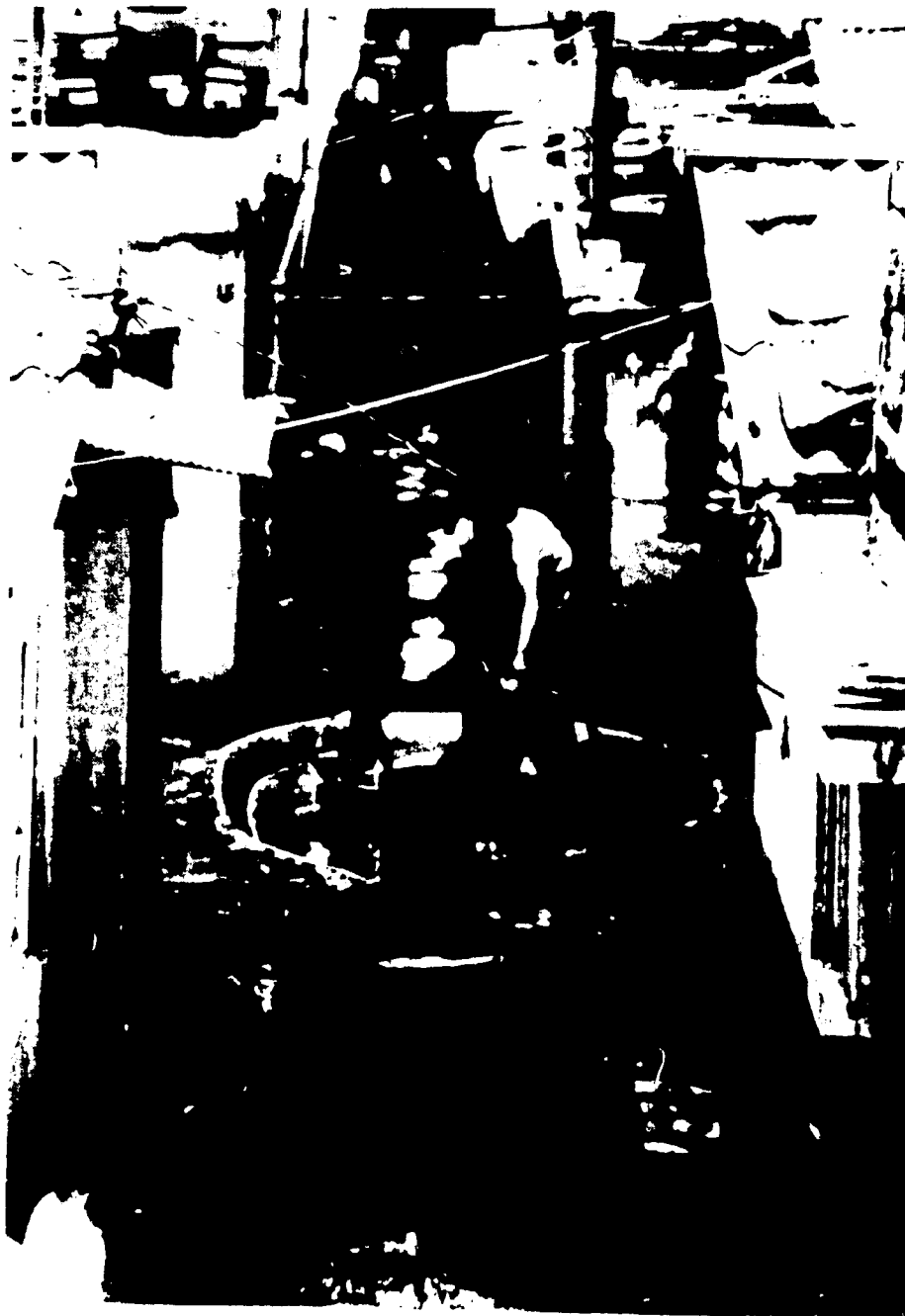




Oksob No. 3 Before Improvement

Storm/Household Waste Sewer Put in Oksob No. 3 With HG Flanking





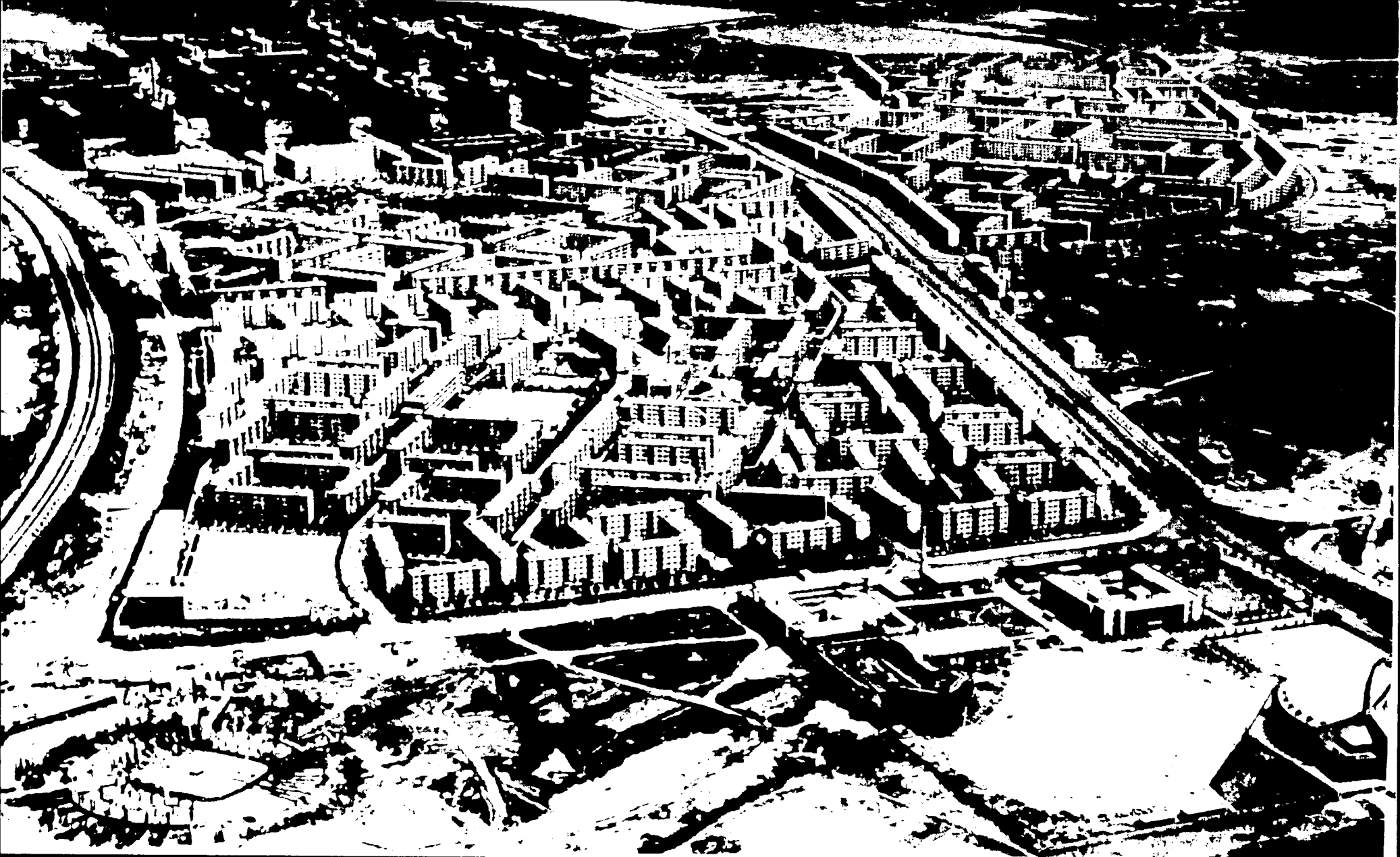
Typical Squatter Area - Seoul



School Children in Jamsil Project

Local Employment & Income generating Program in AID Project (Jamsil)







ECONOMIC PLANNING BOARD
REPUBLIC OF KOREA
Seoul, Korea

Mr. Richard L. Sneider
Ambassador of the
United States of America
Seoul, Korea

July 25, 1977

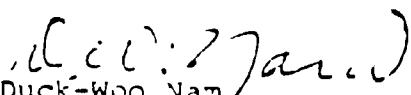
Dear Mr. Sneider:

With reference to the meeting held at the Economic Planning Board on July 20, 1977, concerning the Fifth Housing Construction Project under the AID Guaranty Housing Program, in the amount of U.S. \$25 million for FY 1977 and U.S. \$25 million dollars for FY 1978, I am pleased to inform you that we agree to the selection of the Korea National Housing Corporation and the Korea Housing Bank as borrowers for FY 1977 and FY 1978, respectively; and the Government will seek the approval of the National Assembly for Korea Housing Bank to act as borrower in FY 1978.

It is also my regretful understanding that, under U.S. Law, FY 1978 will be the last year in which AID Housing Guaranty Loans can be provided to Korea. As you are undoubtedly aware, Korea continues to have an urgent need for loan assistance to meet its housing needs in the years ahead, and I look forward to your good offices and assistance in our efforts to secure financing for such objectives.

Once again, I wish to thank you for the assistance of your government in our nation's housing development plans.

Sincerely yours,


Duck-woo Nam
Deputy Prime Minister
and
Minister of Economic Planning

CC: Mr. David McVoy
Acting Chief
RHUDO
USAID/K Seoul, Korea

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UNCLASSIFIED ANNEX I
Department of State

INCOMING
TELEGRAM

PAGE 01 SEOUL 06918 181208Z
ACTION AID-20

INFO OCT-01 EA-12 /033 W
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AIDAC
FMR SER/H

E. O. 11652: N/A

SUBJECT: KOREA FY 77/78 HOUSING GUARANTY

1. MISSION AND EMBASSY HAVE REVIEWED DRAFT AND STRONGLY SUPPORT PROPOSED PP FOR KOREA HOUSING GUARANTY \$25 MILLION AUTHORIZATION FOR FY 77 AND \$25 MILLION AUTHORIZATION FOR FY 78.

2. DISCUSSIONS OF THE PROGRAM THUS FAR WITH THE MINISTRIES OF FINANCE, CONSTRUCTION AND THE ECONOMIC PLANNING BOARD HAVE ALREADY LED TO SIGNIFICANT FIRST STEPS IN IMPROVEMENT OF THE HOUSING FINANCE SYSTEM. THE PROPOSED HG HOUSING FINANCE LOAN FY 78 PHASE (B) AND THE TRANSITION LOAN FY 77 PHASE (A) WILL HELP ROKG IN PLANNING AND IMPLEMENTATION OF IMPORTANT CHANGES IN THE SYSTEM TO INCREASE LOCALLY GENERATED HOUSING FINANCE RESOURCES AVAILABLE TO LOW INCOME FAMILIES.

3. BELIEVE THIS TWO YEAR PROGRAM IS THE NATURAL NEXT STEP IN THE EVALUATION OF THE KOREAN HOUSING GUARANTY PROGRAM FOLLOWING THE SUCCESSFUL ASSISTANCE THAT HAS BEEN GIVEN IN THE DEVELOPMENT OF THE HOUSING SECTOR, INSTITUTIONS OF KOREA, LOW INCOME MINIMAL SHELTER AND SQUATTER UPGRADING PROGRAMS, AND THE KOREAN NATIONAL HOUSING POLICY.

4. MISSION AND EMBASSY RECOMMEND THAT THE PROPOSED PROJECT BE AUTHORIZED.
STERN

UNCLASSIFIED

GRADUATED PAYMENT MORTGAGE

It is anticipated that the first year of the present HIG program will incorporate a level payment mortgage loan based on a nominal rate of interest, between 12 and 15 percent, reflecting the final decision of the ROKG on the revised mortgage interest rate. It is appropriate that HIG loans conform to the proposed Korean housing finance policy. This implies that HIG loans should be made at interest rates which are consistent with those in the Korean economy and which support the housing finance policy of removing major subsidy factors from mortgage interest rates. Inasmuch as the interest rates in the Korea Housing Bank and other mortgage lending entities will be changed January 1978, it is consistent with Korean housing policy to make the first year of the HIG loan at the new rate.

While the precise rate is unknown at this time, (it will be between 12 and 15 percent) the Korean government has used in its policy documents an estimated rate of 15 percent. For purposes of analysis, it has been assumed that the rate prevailing for the HIG loan will be 15 percent. While the movement of HIG loan funds to the new interest rate supports and strengthens the government's hand in bringing interest rates to market levels, it has the potential of pricing certain low income families out of the housing market. In order to deal with this problem, it is suggested that a graduated payment mortgage be adopted which would allow low income families to obtain a mortgage and to have original payments approximately equal to those which would occur under a 9½ percent mortgage rate, which has been shown by prior HIG's to be feasible. The following analysis assumes that the first year's payment would be set at a level necessary to service the loan to the U.S. investor and provide AID guaranty funds in its first year. After the first year, the loan payment increases at a rate of 12.5 percent per year through the tenth year at which point it levels out for the remaining term of the mortgage. The effective interest rate on the loan would be 15 percent over the entire 20 year life of the loan. The 12.5 percent rate of increase in loan payments appears feasible in the Korean economy based on available income statistics. For example, based on monthly income of households living in all cities, the annual rate of increase in household income from 1968 through 1976 has been 19.02 percent per year while the rate of increase for the head of the household over this period has been 21.54 percent. The similar figures

for the gain from 1975 to 1976 are 34 percent gain in income for the household and a 36 percent gain for the head of the household.

Thus, the 12.5 percent rate of increase appears quite manageable when viewed in comparison to the rate at which income is increasing.

A sample approximation of the behavior of the graduated payment loan is shown in Exhibit II. As the exhibit shows, the monthly payment during the first year per thousand dollars lent to the home buyer-borrower is \$7.9167. The approximate payment pattern is shown on the exhibit per thousand dollars and for a sample 10 pyong unit having a mortgage of \$3,000 (W1,449,000). As the sample calculation shows, the beginning payment is \$23.76 (W11,476) per month while the level payment of the 10th through the 20th years is \$68.13 (W32,900) per month.

Raising mortgage interest rates to 15 percent, and at the same time moving to a graduated mortgage payment, will serve a number of functions. These include:

1. An interest rate consistent with that adopted for other mortgage loans in the Korean economy and eliminating the major aspects of subsidy.
2. A loan which is affordable throughout its life by the low income target groups which AID seeks to serve.
3. A loan whose payment pattern is consistent with the higher levels of inflation existing in the Korean economy.
4. A loan which will generate a substantial pool of housing funds from the spread between the rate charged to the borrower and the rate paid to the U.S. investor. Such a pool should be sufficient to cover both dollar risk (devaluation risk) and provide a buildup of excess funds for reinjection into the mortgage lending stream.

Discussions have been held with the Korean government and Korea Housing Corporation concerning the institution of such a payment schedule. A further discussion and program development will be carried on prior to the implementation of the proposed HIG program with the intention of developing the graduated payment loan to operational status which will be consistent with Korean housing finance policy while at the same time serving the low income borrowers.

EXHIBIT II
THE GRADUATED MORTGAGE

Approximate Payment Pattern
per \$1,000 Loan

<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>	<u>Year</u>	<u>Amount</u>
1	\$7.92	4	\$11.27	7	\$16.05
2	8.91	5	12.68	8	18.06
3	10.02	6	19.27	9	20.31
				10	22.85
				11-20	22.71

Approximate Monthly Payments
10 Py Unit Mortgage 1,500,000 W (Monthly Payment)

1	W11,476	4	W16,330	7	W23,256
2	12,910	5	18,373	8	26,169
3	14,519	6	20,677	9	29,429
				10	33,110
				11-20	32,900

STATUTORY CHECKLIST

The Republic of Korea

The Economic Planning Board (EPB)

Korea National Housing Corporation

Korea Housing Bank

Section 221:

The total face amount of guaranties issued, outstanding at any one time, shall not exceed \$1,030,000,000.

Sections 221 and 222 (b):

The proposed Guaranty will finance self-liquidating housing projects under one or more of the following criteria:

- (a) Private housing projects of types similar to those insured by HUD and suitable for conditions in Korea.
- (b) Credit institutions in Korea engaged directly or indirectly in the financing of home mortgages.
- (c) Low-income housing projects.

Section 223(a):

The A.I.D. guaranty fee has been determined by A.I.D. in accordance with the authority delegated by the President.

Section 223(f):

The maximum rate of interest allowable to the eligible U.S. investor to be prescribed by the Administrator will not be more than one percent above the current rate of interest applicable to housing mortgages insured by the Department of Housing and Urban Development.

Section 223(h):

No payment may be made under any guaranty issued for any loss arising out of fraud or misrepresentation for which the party seeking payment is responsible.

Section 223(j):

The project is designed and planned by A.I.D. so that at least ninety percent (90%) of the face value of the proposed guaranty will be issued for housing suitable for families with incomes below the median income (below the urban median income for the housing in urban areas) in Korea.

\$25,000,000 of the housing guaranty will be authorized in Fiscal Year 1977. It is planned that the average face value of all housing guaranties issued (i.e. authorized) in any fiscal year shall not exceed \$15 million.

Section 238(c):

The guaranty agreement will cover only lenders who are "eligible investors" within the meaning of this section of the statute at the time the guaranty is issued.

Section 620/620A:

There is no available information as to facts which would prohibit the furnishing of assistance to Korea.

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

ASSISTANT
ADMINISTRATOR

Provided From: Housing Investment Guaranty Authority
For: Republic of Korea - 489-HG-007

Pursuant to the authority vested in the Assistant Administrator, Bureau for Asia, by the Foreign Assistance Act of 1961, as amended (FAA), and the delegation of authority issued thereunder, I hereby authorize the issuance of guaranties pursuant to Section 221 of the FAA of not to exceed twenty-five million dollars (\$25,000,000) in face amount, assuring against losses of not to exceed one hundred per centum (100%) of loan investment and interest with respect to loans by eligible U.S. investors (Investor) acceptable to A.I.D. made to finance housing projects in the Republic of Korea.

This guaranty shall be subject to the following terms and conditions:

1. Term of Guaranty: The loan shall extend for a period of up to thirty years (30) from the date of disbursement of the first installment of the loan and may include a grace period on the repayment of principal of up to ten years (10). The guaranty of the loan shall extend for a period beginning with the first disbursement of the loan and shall continue until such time as the Investor has been paid in full pursuant to the terms of the loan.
2. Interest Rate: The rate of interest payable to the Investor pursuant to the loan shall not exceed the allowable rate of interest prescribed pursuant to Section 223 (f) of the FAA and shall be consistent with rates of interest generally available for similar types of loans.

3. Republic of Korea Guaranty: The Republic of Korea shall provide its full faith and credit guaranty to A.I.D. in United States dollars assuring against any and all losses to A.I.D. by virtue of A.I.D.'s guaranty to the Investor or from non-payment of the guaranty fee.

4. Fee: The fee of the United States shall be payable in dollars and shall be one-half of one per centum ($\frac{1}{2}\%$) per annum of the outstanding guarantied amount of the loan plus the fixed amount of one percent (1%) of the amount of the loan authorized, or any part thereof, to be paid as A.I.D. may determine upon disbursement of the loan.

5. Other Terms and Conditions: The guaranty shall be subject to such other terms and conditions as A.I.D. may deem necessary.

Date

Clearance:

- Asia/DP:DCohen _____
- Asia/EA:HPetroquin _____
- SER/FM/LD:ASmith _____
- SER/H:CRZenger _____
- GC/H:MKitay _____
- PPC/DPRE:EHogan _____
- GC/Asia:HMorris _____

ENVIRONMENTAL THRESHOLD SHEET

ANNEX N

PROJECT TITLE AND NUMBER: HOUSING INVESTMENT GUARANTY
489-HG-007B

LOCATION KOREA

ENVIRONMENTAL DETERMINATION/DECLARATION: (CHECK ONE)

ON THE BASIS OF THE ATTACHED SUPPORTIVE MATERIALS, I RECOMMEND THAT YOU MAKE THE FOLLOWING THRESHOLD DECISION:

 1. THE PROPOSED OFFICE OF HOUSING ACTION IS NOT A MAJOR FEDERAL ACTION, WHICH WILL HAVE A SIGNIFICANT EFFECT ON THE HUMAN ENVIRONMENT (NEGATIVE DETERMINATION).

 2. THE PROPOSED AGENCY ACTION IS A MAJOR FEDERAL ACTION, WHICH WILL HAVE A SIGNIFICANT EFFECT ON THE HUMAN ENVIRONMENT (POSITIVE DETERMINATION), AND:

 A. AN ENVIRONMENTAL ASSESSMENT IS REQUIRED; OR

 B. AN ENVIRONMENTAL IMPACT STATEMENT IS REQUIRED.

 3. OUR ENVIRONMENTAL EXAMINATION IS NOT COMPLETE. WE RECOMMEND THE FOLLOWING ACTION BE TAKEN:

X 4. THE PROPOSED AGENCY ACTION QUALIFIES FOR A NEGATIVE DECLARATION, BASED UPON:
"THE FACT THAT THE AGENCY HAS PREVIOUSLY DECIDED TO PREPARE A PROGRAMMATIC STATEMENT OR ASSESSMENT COVERING THE ACTIVITY IN QUESTION."

SUPPORTIVE MATERIALS PREPARED BY: NATIONAL SAVINGS AND LOAN LEAGUE
ROYCE LANIER, ENVIRONMENTAL PLANNING CONSULTANT

APPROPRIATE OFFICIAL CONCURRENCE:
APPROVED: Peter M. Kimm 8-31-77
DIRECTOR DATE

ASSISTANT ADMINISTRATOR'S DECISION:
APPROVED: John H. Sullivan 9/2/77