BIBLIOGRAPHIC DATA SHEET

1. CONTROL NUMBER	PN-AAH-738
2. SUBJECT CLASSIFICATION (695)	DE10-0000-G704

3. TITLE AND SUBTITLE (240)

Credit unions in the Republic of Korea: assessment and recommendations on housing finance

4. PERSONAL AUTHORS (100)

Christian, J. W.; Kane, J. W.; Hurd, Gordon

5. CORPORATE AUTHORS (101)

National Savings and Loan League; Credit Union National Assn.

6. DOCUMENT DATE (110)	7. NUMBER OF PAGES (120)	8. ARC NUMBER (170)
1978	82p.	KS332.72.C555

9. REFERENCE ORGANIZATION (130)

CUNA

10. SUPPLEMENTARY NOTES (500)

11. ABSTRACT (950)

12. DESCRIPTORS (920)

Low-income housing
Housing
Finance
Assessment
Loans
Program planning
Mortgage
Financial management
Credit cooperatives
Cooperatives
Korea Rep.

13. PROJECT NUMBER (150)

14. CONTRACT NO.(140)

AID/pha-G-1148

15. CONTRACT TYPE (140)

16. TYPE OF DOCUMENT (160)

Credit Unions in the Republic of Korea

June 1978

AGENCY FOR INTERNATIONAL DEVELOPMENT

OFFICE OF HOUSING

Credit Unions in the Republic of Korea:

Assessment and Recommendations on Housing Finance

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

FOREWORD

This study was conducted by the National Savings and Loan League and the Credit Union National Association, in cooperation with the Korea Housing Bank and the National Credit Union Federation of Korea, for the Office of Housing of the Agency for International Development.

The purpose of the study was to assess Korean credit union activities in the field of housing finance and to determine the feasibility of the Korea Housing Bank's entrance into more active mortgage lending activities through credit unions and cooperatives.

The study team was headed by Dr. James W. Christian, Senior Vice President of the National Savings and Loan League. Other team members were Howard W. Kane, Housing Finance Specialist, National Savings and Loan League, and Gordon Hurd, Credit Union and Cooperative Specialist, Credit Union National Association.

While the findings and recommendations of the study have been discussed with representatives of the Korea Housing Bank and the National Credit Union Federation of Korea, the study is not to be interpreted as the official position of either institution or of the Agency for International Development.

We hope, however, that the Korea Housing Bank will find the study and its recommendations useful as it formulates and implements its lending programs.

David McVoy

David McVoy
Acting Director
Office of Housing

TABLE OF CONTENTS

CONTINUATION OF TABLE OF CONTENTS

SCOPE OF WORK

This study was undertaken to fulfill a KHB responsibility assigned as one of several to be completed prior to FY 78 authorization of phase B of AID's Housing Guaranty loan 489-HG-007. The analysis is directed toward the Korean Credit Union movement and cooperative financial institutions so as to assess the feasibility of the KHB's entrance into more active wholesale lending activities and thus expand the availability of national housing finance resources, especially for persons in the lower income groups.

With this in mind, the study team organized their tasks along the following scope of work:

1. In coordination with RHUDO/Asia, the National Credit Union Federation of Korea, and the Korea Housing Bank, prepare an assessment of Korean credit union activities in the field of housing finance, including the following:

   a. With emphasis on the financial and quantitative aspects, provide a general overview of credit union activities in Korea, including their number and spatial distribution, sources of funds, legal powers, interrelationships with other segments of the financial sector, and income groups served.

   b. Determine the extent to which credit unions in Korea have been and are presently engaged in providing credit for home construction, acquisition, and improvement, the terms of such loans, and the income groups served thereby.

   c. Assess the institutional capability of those credit unions engaged in home finance, or a representative sample thereof, to originate and service such loans, and estimate their absorptive capacity for additional lending.

d. Assess capability of Federation to assist and support credit unions engaged in housing finance.

2. If home financing does not represent a significant part of credit union lending activity, determine the reasons why it does not, e.g. legal restrictions, credit union policy, lack of financial resources, etc., and the extent to which credit unions would be interested in developing low-income housing programs.

3. Given that graduated payment mortgages (GPM) are required in Korea to reach AID's target income group, assess the ability and interest of the credit unions to implement and administer GPM's/.

4. Given also that the FY 78 AID HG Program loan is to be channelled through the Korea Housing Bank (KHB), make recommendations regarding the most feasible means of establishing a mechanism through which HG Program loan funds could be on-lent by the KHB to the credit unions and identify such technical assistance which might be required to implement this program.

5. In coordination with the KHB, ascertain the extent and nature of KHB lending to cooperatives and describe their experience with this activity. Identify the types of housing programs being undertaken by the cooperatives with KHB financing, their general location (e.g. rural, urban, industrial cities, etc.), the terms of KHB lending to cooperatives and the terms of relending by the cooperatives to homeowners.

6. Examine a sample of cooperatives which are presently recipients of KHB financing to determine the income groups to which the cooperatives are lending and their managerial and administrative capability in mortgage loan origination and servicing. Determine the interest of the cooperatives in initiating or expanding low-income lending and their absorptive capacity for AID assistance. Make recommendations regarding the most feasible means of channelling HG Program loan funds from the KHB to cooperatives.

During the course of the study, detailed discussions were held with officers of the National Credit Union Federation of Korea, member credit unions, and "village banks". Visits were made in Seoul, Bupyong, Pusan and Daejon where institutions of various sizes and structure were analyzed.

What follows is a report that the study team feels presents a representative picture of the systems under assessment. Due to the lack of detailed information many estimates were given in measuring target income groups and system absorbtive capacity. However, it is felt that these estimates are for the most part well founded and based on the unanimity of opinion expressed at all the institutions visited.

THE KOREA HOUSING BANK June 23, 1978

<u>AID TEAM CONSULTANTS PARTICIPATING IN THE STUDY:</u>

<u>NATIONAL SAVINGS AND LOAN LEAGUE</u>

Dr. James W. Christian, Team Leader

Mr. Howard W. Kane, Housing Finance Specialist

<u>CREDIT UNION NATIONAL ASSOCIATION/GLOBAL PROJECTS</u>

Mr. Gordon Hurd, Credit Union and Cooperative Specialist

SUMMARY OF FINDINGS AND RECOMMENDATIONS

In Korea today, housing loans are found at three primary public sources: the Korea Housing Bank, Korea's housing finance institution; the Korean National Housing Corporation, the national public housing construction company; and to a limited degree, programs funded through local municipalities. Housing demand has soared in the last two years and estimates currently place the housing deficit at 25% +.

While Korea's current economic boom has contributed to income growth in the 20-30% per year range, housing costs and land prices have increased at even greater rates. Therefore, there exists not only the problem of a housing shortage, but the very real challenge of expanding sources of home credit and increasing the affordability of housing for Korea's poor.

There currently exists within the Korean credit union system a strong foundation for the expansion of long term housing finance. Over the last 13 years the credit union system has shown significant growth in terms of assets and savings mobilization. Membership now exceeds 670,000. Although total system assets (U.S. $100 million) are relatively small by Korean financial sector standards, this financial position was achieved with very little GOK promotion and support. Growth and stability were instead attained through private community capital attraction coupled with generous dividend declarations, and high interest rate, short-term lending. These lending policies, while conducive to rapid financial growth, have effectively excluded home loan affordability to approximately 35% to 40% of the systems membership, the current estimate of low income persons saving in credit unions.

The management of the credit union system is beginning to focus on this problem. The National Credit Union Federation of Korea (NACUFOK), the system's central spokesman, readily admits a need to meet this unfulfilled demand through the use of long term financing and the construction of smaller housing units. However, due to the relatively small size of the system and an estimated low income membership of 235,000 people, external resources will be needed to begin a timely transition into long term mortgage financing. In other words, the system is presently loaned out, so the establishment of a long term mortgage portfolio through the use of internal resources would take a considerable amount of time.

NACUFOK acts as the training and support agency for member credit unions. It also acts as a liquidity pool for the credit unions by lending, or receiving as deposits, excess funds. Its present structure and methods of operation make it a practical choice to be the primary borrower for loans made to the credit union system.

Credit unions have had experience in making home improvement loans and home equity loans. Some have taken back 1st mortgages. However, as previously mentioned, the loans are high rate and short term. They are essentially personal loans where the underwriting process tends to exclude home appraisal techniques and collateralization. Although the credit unions have demonstrated their desire of entering into long term mortgage financing, they would have to be given training and assistance in the concepts, implications and servicing of long term portfolios.

At the present, other intermediaries that could possibly be used for home financing funds expansion appear limited. Housing cooperatives (in the form of a system or a movemnt) do not exist. The large agricultural cooperative, represented by the National Agricultural Cooperative Federation (NACF), is already satisfying farmer housing loan demand in the form of an intensive long term mortgage program. Because of the continuing success of the NACF program, the rural cooperative sector presents little or no opportunities for the KHB/AID program.

"Village Banks", part of the Saemaul Undong (New Community Movement), are beginning to grow rapidly and are attracting surprising amounts of rural sector savings. Yet, these banks are very small on the average and have no established borrowing mechanism at work with the Federation of Village Banks. The Saemaul Undong works primarily at the rural level, in support of the GOK strategy to stem the rural-to-urban migration so prevalent in the late 60's and early 70's. Their work is now focusing on problems of the urban poor. On-lending mechanisms should be established within the Village Bank system late this year or early next. The time constraints affecting authorization of the KHB/AID program, however, are such that it would probably not be feasible to include the Village Bank system in the present program. They should not, however, be discounted for future loan considerations.

RECOMMENDATION 1

The Korean Credit Union system has evolved to the point where its financial position and membership size qualifies it as a true financial intermediary. It is now prepared to enter into long term mortgage financing and it recognizes the need to serve loan demand from its low income membership. However, to begin such a program, they will need to borrow externally.

Recommendation 1.1: It is recommended that should the second phase of AID loan 489-HG-007 be authorized, a line of credit up to U.S. $7.7 million be granted by the KHB to the credit union system for the purpose of making long term construction/permanent financing mortgage loans and home improvement loans to its qualified members falling within the target income group. It is further recommended that in order to centralize loan management and increase program cost-effectiveness, the loan be made first to the National Credit Union

Federation of Korea (NACUFOK) who in turn would sub-lend to individual, qualified member credit unions. NACUFOK would then become the implementing agency under this phase of the program.

Recommendation 1.2: While recognizing that the credit union system has grown due in part to generous savings mobilization incentives, it is felt that growth could have been more effective had dividend declarations been smaller. It is recommended then that both NACUFOK and eligible credit unions review their dividend policies with a view of reducing them to a level where higher amounts of retained earnings could be used in reinvestments and member services.

Recommendation 1.3: The credit union system has specialized in short-term signature type loans and has no effective experience in long term lending. It is recommended that during program implementation, AID provide NACUFOK and the system technical assistance of the following nature:

a) A Housing Finance/Accountant Specialist should be provided on a short term consultancy to indoctrinate NACUFOK and participating credit unions with the concepts of long term financing, GPM's, accounting practices and bookkeeping systems.

b) A Portfolio Manager/Planning Specialist should be provided for up to two months. This specialist would train NACUFOK and participating credit unions in loan servicing procedures, delinquency control, and investment management and planning.

Recommendation 1.4: In order to insure proper implementation of construction phases, it is recommended that NACUFOK retain the services of a local architectural and engineering firm. This firm, along with NACUFOK, would be responsible for project design, bid reviews and on-site inspections.

RECOMMENDATION 2

To date, the KHB has been Korea's primary retail mortgage lender. The KHB has also made substantial amounts of wholesale loans to public sector institutions such as the KNHC, NACF and municipalities. As such, these whole-sale loans have been virtually risk-free, at least in the mind of the KHB. This loan to the credit union system, a private sector institution, will be a new venture, so the risk factor of the loan will undoubtably be a major consid-eration during the KHB underwriting process.

Recommendation 2.1: It is recommended that the KHB investigate the poss-ibilities of securing an MOF guaranty on the repayment of principal and in-terest by NACUFOK. The guaranty could take the form of a "limited" assurance, or simply stated, a guaranty that could be waived after the KHB has had suf-ficient time to give NACUFOK a satisfactory credit rating based on repayment record and program success.

Recommendation 2.2: Notwithstanding the outcome of an application for a MOF guaranty, further risk minimization alternatives should be analyzed for feasibility. These include, but are not limited to, the following:

a) The mortgage instrument could be written to include the KHB as a co-mortgagee along with the credit union making the loan. Should NACUFOK then default, the KHB would have tangible security.

b) By requiring the participating credit unions and NACUFOK to pledge a portion of their assets toward the repayment of the loan, the KHB would be able to insure its exposure.

c) Lease - purchase agreements, or contracts for deed, could be used where the KHB would hold title to the property jointly with the credit union. The credit unions would of course, service these instruments.

RECOMMENDATION 3

It is anticipated that this loan to the credit union system will be funded on a pilot program basis. The degree of program success will be an important factor for future KHB program authorizations. Basic program design however, has not been finalized.

Recommendation 3.1: This program will prove difficult for NACUFOK to manage cost effectively unless the total number of loans to be made to credit unions is kept to a reasonable level during the introduction of long term home financing. It is therefore recommended that the criteria for selecting approximately 24 eligible credit unions be used by NACUFOK as outlined in the text.

Recommendation 3.2: To keep this program in line with the basic concepts of wholesale lending and intermediate borrowers, it is recommended that program responsibilities be delegated as follows:

a) Credit unions: Promotion of Program. Through solicitation, survey the membership to determine income eligibility, loan demand. Receive training and underwrite loan applications. On construction projects, with NACUFOK assistance, solicit and accept low bids from private construction firms and supervise presale of units. With NACUFOK's assistance, monitor construction and costs. Hold loan closings and register pertinent documents. Maintain trained staff to service loans, control delinquency, foreclose loans, and maintain records. Educate and advise borrowers on responsibilities. Assist and advise on the formation of homeowners associations as needed.

b) NACUFOK: Promote program, identify likely eligible credit unions. Solicit income and loan demand surveys. Select credit unions to receive loans. With technical assistance, train headquarters staff and branch office staffs on program targets, concepts and mortgage underwriting and servicing. Provide, through headquarters and branch offices, training to approved credit unions. Render assistance to credit unions on housing design, costing and site inspections on periodic basis. Assist credit unions with loan closings and registrations. Maintain records and monitor sub-loans and delinquency. Execute guaranties, pledges, and design standardized application forms and documents to be used in program. Issue program status reports on periodic basis.

c) KHB: Review and approve NACUFOK proposals. Review and approve drawdown requests and certifications. Monitor loans and status reports. Execute guaranties, pledges and other pertinent documents. Assume exchange risk to U.S. lender and AID. Issue loan status and cost report on periodic basis.

Recommendation 3.3: The nature of wholesale lending usually tends to make these type of loans less costly on an administrative basis than retail lending. As such, wholesale loans usually carry less than end-user interest rates so as to reflect the reduced cost and still return the same net yield generated on retail loans. It is therefore recommended, that the KHB reduce the interest rate charged on the loan it makes to NACUFOK to a level commensurate with the servicing costs of such a loan. At present, based on an anticipated investor/AID cost to KHB of approximately 9.5%, it would be hoped that the rate charged to NACUFOK would not exceed 11%. Assuming a ½ of 1% cost of servicing to the KHB, a 1% spread would be available to cover exchange risk and surplus. Likewise, the rate charged by NACUFOK to a credit union should be set at a level so as to cover NACUFOK's costs and still allow the credit union to issue end user money at near retail levels or at rates affordable to the target income group.

EXPLANATION OF TERMS, ABBREVIATIONS AND ACRONYMS

1 pyeong = 35.5 square feet
10 pyeong = 355 square feet

Currency equivalent: U.S. $1 = W 484

GOK = Government of Korea
MOF = Ministry of Finance
KHB = Korea Housing Bank
NACUFOK = National Credit Union Federation of Korea
NACF = National Agricultural Cooperative Federation

GPM = Graduated Payment Mortgage
% delinquent = expressed as ratio of arrearage to balance of loans outstanding
risk assets = value of loans outstanding or loan portfolio

I. Korean Credit Union System

A. Development of the Korean Credit Union System

As the capsule history included in Appendix A indicates, the credit union movement in Korea was initiated in 1960. The first four years saw the development of a number of primary level credit unions creating the base required to establish the national credit union association in 1964, termed the Korean Credit Union League. The League served to further develop and expand the movement, such that by 1970, a total of 472 credit unions had been organized with nearly 80,000 members. During this period of time however, neither the League nor the credit unions had legal recognition, since a credit union law had not been enacted. The U.S. and Korean governments entered into a project agreement in 1969 to provide a credit union development specialist to the Federation, to, among other things, draft a credit union law, and design and implement an inter-lending program. Both tasks were accomplished; the inter-lending program was established in 1970, and the Credit Union Law was passed in 1972.

With legal recognition for the movement attained, the national association was reorganized in accordance with the provisions of the new law. In March 1973, the National Credit Union Federation of Korea was established, replacing the former League, with broadened powers to engage in inter-lending activities, mutual insurance, and other activities. Subsequently a 10 Year Development Plan was formulated setting out specific targets and objectives to be attained by 1983. In 1976, a more decentralized structure was introduced with the formation of provincial chapters. Composed of leaders of local credit unions, the chapters undertake much of the continuing promotional and training activities for their respective provinces.

B. Structure and Activities

The credit union movement has traditionally been viewed as a structure in which authority flows from the individual member to the credit union and Federation while services flow in the opposite direction. The Korean System is no exception. The membership in the 1393 existing credit unions elect their own Board of Directors, usually 9 members, and Supervisory Committee usually 3 members, at their respective annual meetings. The Board sets overall operating policies, directs staff, and reviews loan applications The Supervisory Committee conducts periodic inspection of the credit union's accounting system. Other committees may be established for specific areas, e.g., Education and Training, Promotion, Delinquent Loans, according to the needs of each credit union.

The provincial chapters are composed of the Presidents of each member credit union. In the annual chapter meeting an executive committee is elected. This committee, as indicated, focuses on training and promotional activities, working in close coordination with the National Federation's field workers located in each province.

The annual meeting of the Federation is comprised of representatives of the member credit unions who elect the Federation's Board of Directors and Supervisory Committee. Similar to the credit union structure the Federation Board sets policy and provides direction for staff. As may be seen, the structure requires that each level within the structure is accountable to the institution or individual it is designed to serve.

In addition to the traditional savings and credit activities, each credit union, in conjunction with the provincial chapter and the Federation, provides training to its members on all aspects of the credit union system, as well as on matters related to general socio-economic conditions. The Federation, in order to support the continuing development at the primary level, provides technical assistance through its Department of Extension as well as the extensive formal training programs. Each credit union is audited by the Federation's auditing staff annually. Supply services and mutual insurance services are also provided. In addition, the Department of Credit provides inter-lending services, i.e., loans to member credit unions requiring additional capital for specific purposes.

C. Current Level of Development

Statistical indicators of movement development as of April 30, 1978 are shown in the tables contained in Appendix B. Table 1 presents data on membership and finances by the registered or non-registered status of the member credit unions. Registered credit unions have been officially registered with the Ministry of Finance and as such, are recognized legal entities. The unregistered credit unions include approximately 250 that have been recently organized. Such credit unions must demonstrate stability and continuing growth before they may be considered for registration. For community credit unions this period takes about 1 year; for employer-related credit unions the process takes only a few months. Also included are about 400 credit unions that have been organized either for some time but show insufficient growth or stability, or do not desire to register with the Ministry of Finance. Although they receive all other services from the Federation, because of the lack of legal recognition, they are unable to participate in the inter-lending program.

As shown, the movement currently has nearly 675,000 members in nearly 1400 credit unions with combined assets valued at W58.7 billion ($121.3 million). The registered credit unions, although accounting for just 52% of the total number of credit unions, include 69% of the membership and 80% of the total assets. Obviously the registered credit unions are more significant, and since only those have legal recognition, they would be the only potential credit unions borrowers under any sub-lending program.

Table 2 presents a statistical profile of an average registered and non-registered credit union which further demonstrates registered credit unions show a level of development greatly exceeding that of non-registered credit unions. With an average membership of about twice that of a non-registered credit union, the registered credit union has nearly 4 times the assets.

The location of the credit unions is another significant factor for purposes of this study. Tables 3 and 4 provide a comparison between urban and rural credit unions. Rural credit unions are defined as those in which the major portion of the membership is engaged in farming or farming related activities. The tables indicate that credit union development has advanced further in urban areas. Nearly 88% of the members and 72% of the total assets are found in urban credit unions. Although rural credit unions compose about 38% of the movement's total, they are significantly smaller.

A typical urban credit union has over four times the members of a rural credit union, and has available approximately 50% more in assets. Based upon criteria discussed later, most rural credit unions would be unable to participate in the proposed loan program because of their smallness, both in terms of membership and assets.

A categorization of all credit unions by asset size, as shown in Table 5 reveals the large number of very small credit unions that exist with assets of less than W10 million, i.e., 784 or 56%. Another 491 credit unions, 35%, have assets between W 10 million and W100 million. Of those, there are 12 very large credit unions with assets averaging more than W1 billion. Again because of the size constraint the smaller credit unions e.g., less than W100 million, would be unable to participate in the proposed loan program. (See Section IV for discussion on eligibility criteria)

The growth of the Korean Credit Union System has been significant. Since 1973, the number of members has increased by nearly 35% annually, while shares, loans, and assets have nearly doubled each year. Such growth is unusual in credit union movements, and demonstrates a vitality and effectiveness on the part of both national and local leaders. As noted previously, the Federation developed a 10 year plan for credit union development, with specific targets to be attained by 1983. Using data available from 1970 through 1977, a linear regression was performed on the trends exhibited to develop alternative estimates of 1983 targets, as shown in Table 6. As shown, the resulting trend lines produced an excellent "fit" with the available data points, producing coefficients of correlation approaching 1.0. Projections for the number of credit unions and members showed linear increases, similar to most other movements. The 1983 estimates are substantially below NACUFOK's estimates, e.g., the plan estimated a total of 5,000 credit unions and 4 million members. It is felt that these estimates are too optimistic and that actual results will be closer to those shown in the table.

However, the estimates for shares, loans, and assets are much higher than the Plan's estimates. The trend line derived results in an exponential equation. Most movements exhibit growth that results in a quadratic equation, increasing far less rapidly. As a result, it is estimated that the system will have W1810 billion in assets by 1983, nearly twice the Plan's estimate of W1000 billion. If such growth does occur the system will obviously have at its disposal a significant capital base with the ability to finance loans for fairly large amounts, including housing construction and/or purchase.

In summary, the statistical indicators describe a credit union movement with a sizeable number of credit unions in all parts of the country, but with most significant development in the urban areas. It has been successful in mobilizing large amounts of resources and most importantly, shows a growth rate that portends favorable results for the future.

D. Financial Review of the System

Similar to other aspects of the Korean economy, the credit union system has shown substantial growth not only in membership size but in capital development. From 1964 to 1977, total member's share subscriptions have increased at an average compounded annual rate of 84.37%, growing from W16.7 million to W21.3 billion (U.S. $44.0 million). Share subscriptions comprise a major part of the credit unions capitalization and are the basis for dividend determination and maximum loan limits for members. Average share subscription per member has increased from W1440 (U.S. $2.98) to W31,831 (U.S. $65.77) reflecting an average compounded annual rate of 26.87%. Subtracting out an average compounded annual inflation rate of 13.2% (estimated), average per member share subscriptions have risen at approximately 13.37% per year in real terms. This perhaps indicates not only an increased ability of members to save, but an increase in member confidence as the movement has grown. Deposit programs, which were introduced in 1972, have grown at even more impressive rates. Total savings deposits grew from W92.5 million in 1972 to W19.4 billion by year end 1977 for an annual growth rate of 191.5%.

Loans outstanding have historically composed approximately 80% of total assets. As of Dec. 31, 1977, the ratio of loans outstanding to total savings (including shares subscribed) was a healthy 98.3%, indicative of savings mobilization as the primary source of funds. The system's consolidated historical balance sheet is presented in TABLE 16.

Consolidated profit and loss statements were not available during the fieldwork. It would appear however, that profitability is not a problem in the credit union system. Of the credit unions visited, 5 income statements were analyzed. Based on year-to-date information, the credit unions net return on assets (before dividends) ranged from 5.8% to 11.1%. An estimate of net return on assets for the system would be 7-9%. These estimates were supported through a similar analysis using the consolidated balance sheets. Given that risk asset yield is approximately 20% and that average weighted cost of money (before dividends) is 6%, an operating return of 14% was derived. Administrative expensives appear to represent 5%± of the average risk asset total which reflects a net return of approximately 9% before dividend declaration.

Interviews with both NACUFOK and the sampled credit unions indicated that delinquency was a relatively minor problem. The major reasons for this appear to be widespread membership education programs that stress timely payments and responsible household budgeting, reasonable care by credit unions in loan underwriting, and strong credit union follow up action on delinquencies. Another likely reason might be the general prosperity shared by the majority of the credit union membership due almost exclusively to the continuing Korean economic boom. Highest delinquency figures quoted were approximately 1.5% and these are usually cured within 2-3 months.

Therefore, giving this analysis a provision for bad debts of 1.5% to be conservative, net return is reduced to 7.5%. A mandatory 10% of net earnings is then placed into reserves and the balance is used for dividend declarations, earned surplus, and voluntary reserves. Dividend declarations were difficult to determine as an average due to widely varying practices among the credit unions sampled. These dividends ranged from 16% to 41% on share subscriptions. It is probably safe to say however, that dividends will usually range from 14% - 20% on share subscriptions.

The credit union movement in Korea has managed unusually rapid financial growth due primarily to Korea's remarkable economic development. The system, in an effort to retain autonomy, has received very little GOK assistance. Therefore, it was felt that growth would be further enhanced by reverting to short term, high interest rate lending. The growth was achieved and the majority of large year-end surpluses were paid out to members as dividends. This practice, as explained above, continues to date.

Unfortunately, the policies which were responsible for the credit unions' growth made loans of any substantial size (i.e. for housing) practically unaffordable to its low income members. On the other hand, this problem is now beginning to draw the attention of credit union management. The system has evolved to a point where it is financially sound and stable enough to begin a venture into long term lending without disrupting its cash flow. This concept, low income housing,and the use of innovative financing techniques were enthusiastically received by NACUFOK and practically all of the credit unions visited during the course of this study.

E. Credit Union Operations

In addition to the information available at the Federation about the credit union system, it was deemed necessary to obtain additional data that could only be provided through visits to individual credit unions. Accordingly, the Federation staff arranged for visits to 10 credit unions; 4 in Seoul, 3 in Pusan, and 3 in Daejon.

As shown in Table 7 a good cross section of the types of credit unions was obtained. Among the 10 were included 5 community-based, 4 employer based, and 1 location-based credit unions. In terms of size, 3 credit unions had assets between W50 million and W100 million, 5 credit unions between W100 million and W500 million, and 2 with more than W500 million. Staffing sizes ranged from 2 to 18, directly correlated to asset size.

The office space used by all 10 credit unions appeared to be entirely adequate for their needs. Most had teller-window arrangements with an office for the general manager which included a small conference area. Security, including the handling of cash transactions, appeared quite adequate. Financial records appeared to be well organized, and all the financial statements were up to date. In short, in no instance did a credit union appear to be managed in a less than professional way.

In the smaller credit unions, staff consisted of the general manager and one or two clerks. The larger credit unions often included an assistant manager, loan officers, plus additional clerks. Most had undergone specific training programs offered by the Federation related to their particular jobs. The managers had usually participated in numberous training programs, and possessed several years experience in the credit union field, in addition to usual formal education in accounting or business management.

During discussions with credit union board members and managers, it was apparent that they had carefully analyzed their members savings and credit needs, and had often developed specific strategies to meet them. To illustrate, 3 credit unions had already performed a rough analysis of their members' housing needs, and had developed tentative strategies.

Credit unions are free to establish interest rates and terms on both deposits and loans according to their own judgment, providing of course they remain within legal limitations. It appears that most have very similar interest rates and terms, however, probably as a result of the Federation's assistance which has tended to make them standardized. In Table 8, interest rates and terms of a sample credit union is presented, which may be considered representative of most Korean credit unions.

Similar to other financial institutions in Korea, the credit union movement has developed a large assortment of deposit programs. Authority to accept deposits was included in the credit union law of 1972 in an effort to attract additional savings. It has been most successful, such that the amount contained in the various deposit accounts combine to surpass the amount in share subscriptions.

A focal point of the field visits was to determine the magnitude of loans currently being used for housing purposes, and to ascertain the existing demand for housing finance. The Federation compiled information the purposes for loans from its member credit unions for the year ending 1977 as shown in Table 9.

Significantly, housing loans rank second in terms of the number and amount of loans made, comprising 18.1% of the number of loans and 23.2% of the loan volume.

Average loan amount for housing purposes equals W576,000, which includes loans for house acquisition and construction, secondary financing, and home improvement.

Our field visits confirmed the considerable activity in housing loans. (See Table 10). All of the credit unions visited had provided loans for home improvement; in some it was a very significant amount approaching 80% of all loans in one credit union. One rather surprising discovery was the rather extensive experience a number of credit unions had in home construction and acquisition lending. In 5 of the sampled credit unions, loans for those purposes were fairly significant. Most are limited by resource limitations to relatively short-term lending, usually 30-40 months maximum. Accordingly, with construction/acquisition loans averaging slightly more than W1 million, repayments average about W50,000 to W60,000 per month. As a result, these loans have principally been utilized by the more affluent credit union members.

Typically, the credit union provides small amounts of financing for construction and home equity loans; the mortgage is usually held by another financial institution, e.g., the KHB. Some, however, have taken mortgages.

It is estimated that only a small portion of the housing loan activity has reached the lower income groups. Those in lower income groups that already own houses have been able to use loans for home improvement, with perhaps similar frequency as the upper income groups. However, construction and acquisition loans have probably been unattainable for lower income groups. In addition to the large down payment usually required, plus the very large loan amount required, the short repayment period on credit union loans would eliminate most low income members.

Estimates of housing needs were solicited from each of the credit unions visited, as presented in Table 11. Members who did not own their house ranged from 20% in one credit union to 80% in two others. Most indicated about half their membership did not own their house. Although data were unavailable on the percentage of the lower income groups that did not own their house, it seems logical that among this group the percentage would be higher than for the membership as a whole. It should be noted however, that these percentages do not measure effective demand for housing among the low income groups. Because of the rapidly increasing costs for acquisition and construction, it is probable that at least 40% of the low income group would be unable to acquire a home, even with a 20 year loan term and the graduated payment mortgage plan proposed for this project. Effective demand for housing from low income groups is consequently much lower than the estimated need.

In discussion with credit union leadership an attempt was made to determine the proportion of low income families among their membership. Using W120,000 per month as the estimated median income nationwide, credit unions were asked the percentage of their membership that fell below their figure. Where this estimate was impossible to derive, the average monthly income per member was requested. The results are shown in Table 12. It should be stressed that these are solely estimates, based upon informed guesses provided by credit union leadership. No opportunity existed to verify those estimates.

The figures presented indicate that in 6 credit unions, low income groups composed a substantial portion of the membership, i.e., approximately 30% or more fall below the median. All five community based credit unions plus the location-based credit unions were included in this category. Two of the employer-based credit unions had approximately 20% low income, while the two credit unions affiliated with the trade unions had virtually none. This would seem to confirm what might have been expected, i.e. the community-based credit unions are more likely to have significantly higher percentages of low income among their membership. This factor may be useful in identifying credit unions to be served by the proposed project.

Employer-based credit unions of course should not be eliminated since they tend to be larger; thus, even with a smaller percentage of low income members, they may still have more absolute numbers of members in those groups. Employer-based credit unions can also utilize payroll deduction on savings and loans, thus insuring loan repayment and reducing administrative costs. In addition, they often receive support from the employer, e.g., rent-free office space, a portion of staff salaries, etc., that reduces costs.

In summary, the field visits to the credit unions indicated that:

a. Management and administrative capabilities are adequate; it appears that the Federation has effectively trained local leaders to perform all regular credit union functions.

b. Loan analysis, monitoring, and collection procedures are effective, as demonstrated by the low delinquency rates.

c. All credit unions visited were substantially above the break-even point, in part, illustrated by the solid dividends paid on shares, which also reflects their success in controlling costs.

d. Growth in membership, shares, and assets is consistently strong. The deposits program is an effective means to attract existing surplus capital.

e. A number of short-to-median term loans are available to fit member lending requirements.

f. Loans for housing purposes are a major activity accounting for nearly 1/4 of total loan volume. Home improvement loans are prevalent in all credit unions. Many have provided small construction loans or loans on a homeowner's equity. A limited number have made mortgage loans, but only for short terms of usually 30-40 months.

g. It is our estimate that very little of the housing loan activity, particularly for acquisition and construction has reached the lower income groups, principally because the short term/high down payment currently required excludes these groups.

h. Housing needs among credit union membership is significant; an estimated 50% did not own their house.

i. Low income groups, i.e. below the median income of W120,000/month constitute a substantial portion of credit union membership; an estimated 35 to 40% fall below the median.

II. Analyses of NACUFOK

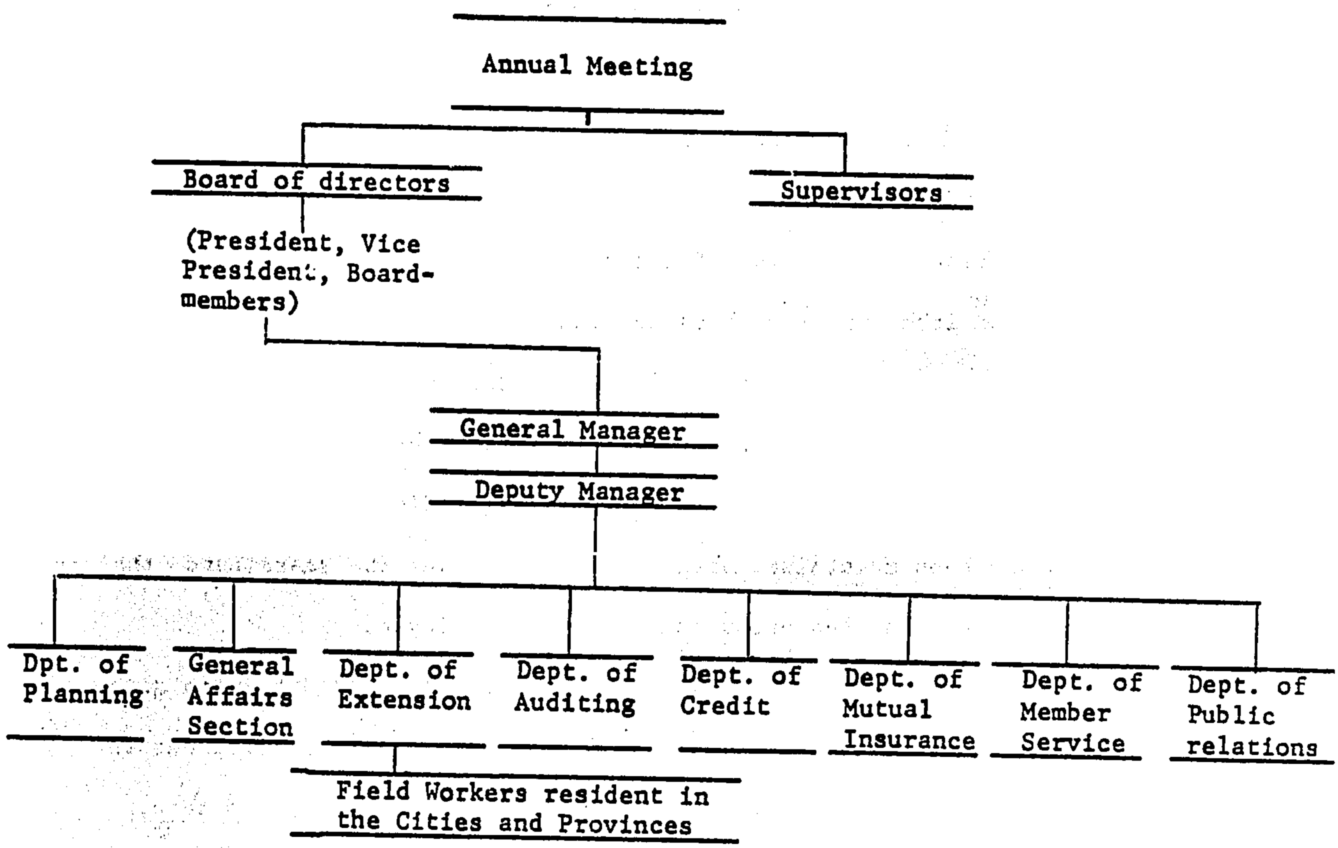
A. Organization and Capabilities

Exhibit A presents the organizational chart of the Federation. The General Manager heads an organization of 8 departments with a staff of 51, including 11 field workers. Three of the departments; Audit, Mutual Insurance, and Member Service, are revenue producing services, and as such, are financially self-sufficient, i.e., income derived from the services is expected to at least cover costs. The other departments rely principally on revenues produced from annual membership fees.

The credit union movement falls under the auspices of the Ministry of Finance, and accordingly the Federation is audited by the MOF's Office of Auditing Affairs once each year. Federation staff indicated that an excellent relationship has been maintained with the Ministry over the years, and that in fact a credit union has been established for MOF employees.

One of the principal activities of any national credit union association is training. Federation leadership single out their committment to training as the most important reason for the movement's success to date. As Table 13 indicates, training programs were initiated in 1964, and the number of persons trained each year has continued to grow, particularly since 1973. The Korean government has continued to provide a subsidy to finance this activity.

Exhibit A: Structure of NACUFOK
(December 31, 1977)



Although the study's scope of work did not include an assessment of all Federation capabilities, we should note our favorable impression of the quality of its staff. All personnel with whom we had contact demonstra professional competence, and were obviously quite committed to credit unior development. The General Manager, who has held this position since 1965, an his senior professional staff all have the requisite academic credentials i their areas of specialization, and years of experience; to perform their du ties satisfactorily. Many have participated in numerous training programs sponsored by the international credit union movement, and have travelled ex tensively to broaden their knowledge of development techniques. The same may be said of members of the Board of Directors with whom we had contact. In short the leadership and management of NACUFOK can be included as one of its principal assets. (See Appendix B)

B. Inter-lending Program

As noted earlier, the Federation's Inter-lending Program was established in 1970. Seed capital money from the Korean government during the first 3 years, totaling W35 million helped the program get underway. Since that time, the Federation has been increasingly able to mobilize funds from among its member credit unions. By the end of 1977, the program had been capitalized in the following manner:

(in million won)

Shares	-	91.7
Deposits	-	595.9
Government Subsidy	-	35.0
Other	-	45.0
Total	-	767.6

Included in the "other" category is grant funding from the Misereor organization an, active donor to worldwide credit union programs, for relief to farmers effected by drought, and from the Leper Assistance Foundation to assist the Leper Colony Credit Unions.

To become a member of the Inter-Lending Program each credit union must purchase at least one share valued at W10,000. No additional share purchases are required. However, since the maximum loan amount available to each credit union is determined by its share capital account, there exists a continuing incentive to purchase additional shares. Dividends, of course, are paid on shares from the end-of-year surplus.

Similar to the credit unions, NACUFOK has also developed a number of deposit programs and loan types to meet the needs of their investors and borrowers, as shown in Table 14.

Since the government subsidy and grants are costless, the average cost of capital for the Federation is 1.25% per month or 15% annually.

The average yield to the Federation is 1.6% monthly or 19.2% annually leaving a margin of 4.2% to cover expenses, place 10% of the surplus in reserves, and pay dividends.

An analysis of the use of the loans provided by the Inter-Lending Program is shown in Table 15. Significantly, for this study, loans made for "house repairs" appear as the largest category, resulting in 21.4% of the number and 17.8% of the amount of loans made.

The Federation's Credit Dapartment includes 6 full time staff members. A rather thorough analysis is made of the loan requests and as a result, loan delinquency has been extremely low, currently at .5%, and there have been no defaults to date.

To date the Inter-Lending Program has not undertaken any debt financing. Our assessment of their capabilities to manage a loan such as that proposed by this project is very high. They continually monitor their loans to the credit unions, making use of the Federation's field workers to provide information and follow-up. The accounting system used is adequate, and the loan application and analysis procedures are fairly vigorous.

However, Federation staff have not previously handled long term mortgage loans, and as such have not dealt with the special loan analysis procedures, information requirements, collateral requirements, cash flow implications, etc. that are pertinent to this type of lending. Technical assistance would be required as part of the project design to equip NACUFOK staff with the requisite skills. (See Section VI)

C. Financial Review of NACUFOK

Over the one year period 1976-1977, NACUFOK's assets increased by 44.5%, moving from W636.0 million to W918.8 million. The growth was due primarily to large increases in two sources of funds: share subscriptions from member credit unions increased by W30.2 million and deposits made by credit unions increased by W138.6 million. The total loan portfolio increased by 40.5% moving from W325.3 million to W457.1 million. The loan to deposit (including shares) ratio at the end of 1977 was 71.0%, somewhat low for a financial institution. However, lending is just one of many services that NACUFOK provides, so the validity of this ratio is questionable in so far as rating NACUFOK as a financial institution. NACUFOK's liquid assets (cash and near cash) at the end of 1977 amounted to 26.1% of its total assets. It is felt that a high liquidity position is possibly necessary for a support institution of this nature.

Accountability is separated into 4 areas: 1 general account and 3 special accounts (interlending, supply service, and mutual insurance). The general account is a support account for NACUFOK activities. As such, it has posted losses in 1976 and 1977 of approximately W5 million each year. The interlending program is a true revenue producer for NACUFOK and during 1977 generated a net profit of W11.6 million.

Taking into account the profits generated by the other two special accounts, total consolidated net income prior to dividends was W10.8 million (U.S. $22.3 thousand). The net return on average assets during 1977 was 1.4%.

An analysis of the interlending account gives a better idea of the financial position of NACUFOK as a "banking" institution. Tables 17, 18, and 19 give comparative financial information and indicative ratios for the interlending program. During 1977, assets increased by 41% over year end 1976, moving from W543.8 million to W767.6 million (U.S. $1.6 million). Assets are primarily composed of loans made to registered credit unions and to NACUFOK's branch offices in the provinces. During 1977 these loans accounted for approximately 67% of total assets. NACUFOK also places large deposits with its branch offices (at the end of 1977 these deposits totalled W135.7 million) which could be considered a type of loan. If these deposits are added to risk assets, the loans to total assets ratio becomes 83.7%. Because NACUFOK's lending operations are conducted on a "preferential" basis to a limited clientele, these ratios can be considered adequate.

An analysis was performed on the interlending program's actual rate of return throughout 1977 (as opposed to contract rates of return). This form of analysis accounts for variations in maturity and amortization stages within its loan portfolio. Interest income in 1977 comprised 16.38% of the average portfolio. Interest paid accounted for 10.46%, leaving an operating margin of 5.92%. Out of this spread, salaries and administrative expenses amounted to 3.02% thus giving NACUFOK a 2.90% return to cover variable expenses, delinquency, and dividends. Delinquency is so low that it was not deemed critical to the analysis. The net rate of return on average total assets was 1.77%, more than adequate even when compared against returns for many successful financial institutions in developed nations.

NACUFOK pays dividends to shareholders out of the year-end surplus. In 1977, 16% dividends were declared for a total payout in excess of W14.5 million. This was accomplished by pooling the profits of the other two special accounts and deferring the loss posted by the general account. From a financial perspective, this size dividend appears overly generous especially in light of the W5 million loss to the general account. Equity growth can be hampered should this type of policy continually remain in practice. However, NACUFOK is striving to attract more capital in the form of deposits and share subscriptions. Large dividend declarations can be used to mobilize funds; and a review of the comparative balance sheets appears to bear this out.

NACUFOK essentially performs system training services and affords members a liquidity pool. Given the nature of the organization, its financial position must be judged adequate for borrowing purposes.

III. Technical ability of the System to Absorb KHB funds

A. On-lending directly to individual credit unions

Individual credit unions have, for the most part, grown rapidly, carried on successful savings and lending operations, and put through excellent promotional campaigns with what could be considered small staffs with limited support resources outside of what NACUFOK provides. As already mentioned, most administrative forms are standardized and underwriting practices appear to conform throughout the system.

Direct lending by the KHB to individual credit unions (bypassing NACUFOK) could produce undesireable results and expenses. None of the credit unions visited had construction specialists (or engineers) on their staffs and none used standard appraisal techniques in their loan underwriting. Furthermore, it is doubtful that most credit unions could afford or would want to hire a specialist with appraisal/construction qualifications. Under these terms then, the burden and resulting expenses of cost estimating, reviewing plans and specifications, and site inspections could likely fall on the KHB. This would probably force on-lending interest rates up to retail levels and actually nullify KHB's role as a wholesale lender in this program.

Financially speaking, the credit unions should have no technical problem absorbing KHB funds. Management of the sampled credit unions displayed solid financial ability. Training would be necessary to indoctrinate responsible individuals in the concept and accounting of GPM's. Again, however, should the KHB on-lend directly to individual credit unions, training costs could possibly have to be absorbed by the KHB. Moreover, the KHB would have to bear the burden of financial monitoring during and after the implementation period. Again, this could drive up interest rates and put the KHB in the position of a "near" retail lender.

It is our recommendation that direct loans by the KHB to individual credit unions not be used as the on-lending mechanism for this program. If considered, this should be the alternative of last resort.

B. On-lending to NACUFOK

The analysis of the National Credit Union Federation of Korea shows that this organization has the necessary financial ability and many established mechanisms to make it the more feasible recipient of KHB lending. NACUFOK headquarters has on hand a total of 6 staff members in its Credit Department to directly administer this program. The advantages of wholesale lending to NACUFOK are numerous, however the important ones are listed as follows.

a) NACUFOK has not only the financial expertise in management to administer a program such as this, but the ability and capacity to maintain files and records in a centralized location. NACUFOK is to begin a feasibility study of leasing computer time and should have the results by year end. Should an EDP system be employed by NACUFOK, it would drastically reduce time and effort in program administration. Costs could forseeably be reduced also.

b) NACUFOK has an established interlending program in force. The mechanism for onlending to individual credit unions has been established since 1970. With training modifications by NACUFOK, the inter-lending mechanism could serve well in this program.

c) Field representatives are in place in 9 provinces plus Seoul and Pusan. These extension workers could act as the training implementation arm of NACUFOK.

d) NACUFOK has demonstrated its intent of serving low income families.

This direction would move the program in a uniform manner through implementation.

e) NACUFOK would be the primary borrower. This would serve to make the KHB a wholesale lender, thus reducing costs to the KHB and making it feasible to reduce the interest rate charged to NACUFOK.

NACUFOK does not have construction specialists or engineers on its staff. They would have to acquire the services of at least one such specialist who could travel between credit unions or branch offices in order to undertake the technical aspects of housing under this program.

It is our recommendation that an on-lending program to credit unions should first take the form of a wholesale loan to NACUFOK. NACUFOK could then become the primary implementing agency in sub-lending to individual credit unions. It is also recommended that along these lines, a MOF guaranty to the KHB should be sought; however, failure to secure such a guaranty should not disqualify NACUFOK as a potential borrower. (See conclusions and recommendations).

IV. Criteria for Credit Union Sub-lending Selection and Absorbtive Capacity of the System

The obvious first role in the approval of a loan to any credit union (or for that matter, any financial institution) is to analyze its financial stability, borrowing history, and ability to repay. This step in the underwriting process is discussed later. The following step-by-step process to select a maximum number of eligible institutions is presented below.

1. Registered credit union: a credit union is not considered a legal entity until it becomes registered by the MOF. Further, no unregistered credit union can borrow from NACUFOK.
2. Urban credit union: this program is primarily directed to the urban poor. The rural population appears to be having much of its housing needs satisfied through agricultural cooperatives.
3. Credit union with assets of W100 million or more: this would insure, to a general degree, adequate staffing to handle this type of lending program. This criteria also assures a credit union's legal ability to borrow sufficient funds to make the transaction cost efficient to both the lender and the credit union.

This selection process automatically reduces the number of potentially eligible credit unions from a total number of 1,393 to 83. More will probably not qualify for financial reasons, or through an internal decision not to borrow externally. Care must be exercised not to select a credit union that would pose direct competition to a KHB branch office or vice-versa (i.e. where the credit union could directly compete with a new KHB mortgage initiative, savings campaign, or new branch facility).

The absorbtive capacity of the eligible credit union's was derived through a systematic process. The 83 registered, urban, W100 + asset size credit unions have a total of W25.7 billion in assets. Section 4, article 31, paragraph 2 of the Korean Credit Union Law restricts credit union's borrowings to no more than the aggregate of share subscriptions and reserves. On the average, large, urban credit unions' borrowing limits are 55% of total assets or W14.1 billion (U.S. $29.1 million). This figure is then, the maximum legal absorbtive capacity of the eligible credit unions.

As previously noted, an estimate of 35% of an urban credit unions membership earned incomes below the median. Large urban credit unions average 1,300 members which means approximately 455 members per credit union fell into the target income group. It is also estimated that there are 1.6 credit union members per household which indicates 284 possible loan applications per eligible credit union. An attrition rate of 40% of the applications was selected, meaning that 40% of the households would either not qualify through financial reasons or would not apply. The remaining 60% would comprise 170 probable loans per eligible credit union.

Further estimates, derived primarily through interviews with credit union management, suggest that approximately 50% of the 170 loans (or 85) requested would be purchase/construction mortgages. The other 50% would desire home improvement loans. Using average loan sizes as outlined in the Project Paper, the total maximum funding per credit union would be W156.2 million (W109.5 million in purchase/construction and W24.7 million in home improvement). Total absorbtive capacity among the 83 eligible credit unions is then W13.0 billion or U.S. $26.8 million.

It is at this point that further criteria should come into play. Because proposed lending to the credit union system is essentially a pilot program, cost reduction for the wholesale lender and any intermediate lender is important. Should NACUFOK be selected as the wholesale borrower, cost reduction is possible while still allowing adequate measureable results in terms of a pilot program. The cost reduction is achieved through reduction of the total number of credit unions to be selected as sub-borrowers. By selecting perhaps 2 eligible credit unions in each of the provinces and 3 in the two special cities, a total of 24 loans would be made. It is felt that the implementation and administration of 24 loans would not strain the resources of NACUFOK. Under this condition then, the maximum total to be loaned to the credit union system on a pilot basis would be W3.75 billion (U.S. $7.7 million).

It must be noted, however, that in light of rapidly rising costs of construction and land in Korea since the Project Paper was written, this absorbtive capacity could be higher as loan amounts would have to rise. On the other hand, a significant number of eligible borrowers could be excluded from the program should they not be able to qualify under program guidelines due to the higher shelter costs.

The selection of the 24 credit unions should follow certain defined sub-criteria. Number one, as previously mentioned, will be a credit union's credit risk. A credit union with sustained portfolio delinquency in excess of 5% should be avoided. Likewise, a credit union that shows a history of liquidity problems, or one that must consistently seek external sources of funds (i.e. NACUFOK loans) to meet its operating needs, would probably not meet eligibility requirements. Therefore, the first step in this process would be to rank the 83 credit unions in order of financial viability as potential borrowers.

The second step should be to gauge three factors: 1) sufficient membership within the target income group, 2) a demonstrable demand for housing loans (as outlined in this section) within the target income group, and 3) sufficient staff size to underwrite and service an average of 85 long term mortgage loans and 85 home improvement loans. It is felt that at least two employees would be needed to perform this task; at the onset of program implementation, their services would be almost full-time, and during servicing, more or less part-time.

These data can then be used to adjust the ranking of the eligible institutions. The 24 credit unions could then be selected from the final ranking.

V. The Cooperative Movement in Korea

A. Housing cooperatives, in the form of a movement, do not appear to exist in Korea. An interview with the president of the Korea Cooperative Research Institution confirmed this belief. Housing cooperatives have been formed in the past, fulfilled their basic function of constructing and securing financing for a project, and then simply disbanded. A visit to former cooperative housing site with its organizer in Pusan revealed an extremely well thought out and constructed housing project. Why housing cooperatives have not organized themselves into a movement (as have other groups) is a matter open to speculation. One likely reason is that other cooperatives have been formed around occupation "common bonds" and have assisted its members in housing as well as other needs.

B. Agricultural Cooperatives

The National Agricultural Cooperative Federation (NACF), under the control of the Ministry of Home Affairs, is the representative and guiding agency for Korea's enormous agricultural cooperative movement. At the end of 1977, 1.9 million (or 82%) of Korea's farmers were members of the cooperative movement. There are over 1,800 such cooperatives, organized along an extensive regional network, that totalled over U.S. $1.9 billion in assets. The NACF has over 1,200 employees in Seoul and over 32,000 throughout the country.

At the end of 1976 the NACF had U.S. $1.3 billion available as sources of funds. Savings by members only comprised 59% of that total. GOK subsidies accounted for 12%, earned surpluses 19%, and miscellaneous sources made up the remainder.

The NACF has just entered this year into a U.S. $165 million long term housing program for its members. Eighty percent financing is being made available for 20 years including a 5 year grace period. The KHB is making a W19 billion loan to the NACF for this purpose. These funds only comprise 21% of total sources of funds for this housing venture. The GOK is subsidizing nearly 40% of the package at 0% interest; the NACF and a loan from the Asian Development Bank will fund the balance and will create a pool costing only 8.9% per annum. Farmer's interest rates on these home loans will be at 11%.

These concessional rates and terms to this sector of the population would nullify any further effort by the KHB to penetrate this capital market. Moreover, it appears that the cooperative housing program is in itself taking care of its members; since March 1, 1978 over 30,800 mortgage loans have been made totalling W39.5 billion. It is the above mentioned reasons that any KHB on-lending to NACF would not serve the purposes of this program.

C. The Saemaul Undong

1. Background of the Village Bank System

The village bank system was organized as part of the National Reconstruction Movement which was initiated in 1961. The first village bank was formed in 1963. In 1970, the Movement was reorganized under the Saemaul Undong (New Community Movement). This movement is the government-sponsored program to develop local level organizations for lower income groups. General community development activities are undertaken, with training of local leaders being one of the principal ones. The program's focus was initially established in rural areas, among farmers and workers in small villages. Recently it has begun to organize community groups in urban areas also.

The village bank is one of the mechanisms to achieve development through the Saemaul movement. In most respects they are very similar to credit unions, and in fact, fall under the Credit Union Law. Their objectives and principles are essentially the same, as well as the organizational structure, policies and procedures, savings and loan terms and interest rates, and other activities. In essence, the previous section describing credit union structure, policies, activities, etc., also applies to the village bank system.

2. Current Level of Development

In Table 20, the number of village banks, members, and assets are presented. As shown, there are a large number of village banks, but only a small percentage (3.4%) are currently registered. This apparently is due in part to the fact that there are a large number of very small village banks which are of insufficient size to register, and lack potential for significant growth. In addition, the processing time for registration is very long. Unlike credit unions, village banks fall under the auspices of the Ministry of House Affairs. As a consequence, only 16.7% of the total membership and 36.2% of the total assets are found in registered village banks.

As indicated, nearly 89% of the village banks are found in the rural areas. Nearly all (97.6%) of the rural village banks are non-registered. Urban village banks, although much fewer in number, contain 53% of the movement's membership and 63% of its assets.

The difference between urban and rural development is further illustrated if a comparison between the average urban and rural village banks is made as shown in Table 21. Non-registered rural village banks average slightly more than W1 million in assets, with an average membership of 79. In contrast, registered urban village banks have an average of 1,830 members and assets of W87 million. Most rural village banks would be too small to participate in an external lending program.

Table 22 classifies all village banks by asset size. Nearly 90 percent have assets of less than W3 million. Only 249 or 0.6 percent have assets of more than W100 million. Although we have no data, we presume most of the latter are registered urban village banks, and using the criteria discussed in the previous section, would be eligible for external credit.

In summary, the village bank system contains a large number of institutions located in rural areas; however, greatest development in terms of membership and assets has taken place in urban areas.

3. Korean Federation of Village Banks

The Federation was organized in 1973 to serve as the apex organization for the village bank movement. Until 1977, its focus was almost entirely on training programs for local leaders. Few other additional services were provided. In 1977, an effort was initiated to expand the activities of the Federation, to initiate, among other things, an interlending program.

A total of 27 staff members comprise the headquarters staff; all salaries are paid by the Government. Affiliated to the movement are approximately 500 community leaders who serve as monitors and promoters for the system. Salaries of the community leaders are assumed by local governments. The principal activities of the Federation continue to focus on educational and promotional activities.

At this point, the interlending program is only receiving share subscriptions from its members. To date, approximately W24 million has been received. Federation staff indicated that lending activities would likely be set at about 13%. No deposits program has yet been developed.

Since the Federation's interlending program is just getting underway, we believe it would be unable to administer a large external loan as envisioned by the proposed housing loan program. At this point, it has neither the financial resources nor the technical capabilities and experience that would make it eligible. Lending policies and application formats are yet to be devised. Thus, it is premature to consider an external loan of any magnitude.

Once the program is established, and a successful record of lending and repayment has been obtained, this Federation should be re-examined as a potential borrower.

VI. Conclusions and Recommendations on Program Implementation

This study recommends that KHB wholesale lending to the Korea credit union system take the form of a loan to NACUFOK where it would serve as the implementing agency for the program. There are however, certain basic subjects involved in implementing a program such as this that should be analyzed. These subjects can be categorized as follows: 1) risk, 2) program design, and 3) technical assistance.

A. Risk

A loan by the KHB to NACUFOK will certainly bear a risk factor in so far as the KHB is concerned. A U.S. $7.7 million loan to NACUFOK would be 4.1 times as large as its total present assets. In other words, a default by NACUFOK would only allow the KHB to recoup at the most, a little over 1/4 of its investment through a claims process, should no other security be present. There are several choices to select from that could be employed to minimize KHB's exposure and risk.

1. MOF Guaranty: This would essentially eliminate any risk to the KHB. It is suggested that this avenue be explored further and should be considered an important risk reduction instrument.
2. KHB as Mortgagee: Mortgages could be written so as to name the KHB as subordinate lien holder only to become primary lien holder in the event of default by NACUFOK. Likewise, NACUFOK could also be named as a secondary mortgagee to cover its risk in the event of a credit union's default.
3. Pledged assets: The law in Korea concerning the pledging of mortgages appears to forbid it. However, it is vague. This aspect should be pursued further. It is felt though, that the pledging of a portion of an institution's assets (other than just mortgages)

is acceptable. By pledging portions of assets of the participating credit unions and of NACUFOK, the total pledge could cover KHB's exposure.

4. Lease-Purchase Agreements: (Contracts for Deed) Under this arrangement, the KHB would hold title to the property and the credit unions and NACUFOK would "service" the instruments. This could also serve as a pilot program for loan servicing as a means of establishing a secondary mortgage market in Korea. Also, lease-purchase agreements might possibly be written with the credit unions holding title with the KHB. This way, both parties would have tangible security backing their investment.

Further risk reduction methods can be achieved during implementation through careful credit union selection, care in screening mortgage applications, proper training and staffing to underwrite and service the loan portfolio, accurate costing and control during construction phases, education of home-owners in the concept of long term financing and proper monitoring of the sub-loans by NACUFOK.

B. Program Design

The basic framework envisioned at the present time is one that would have the KHB making one wholesale loan to NACUFOK. This loan would be disbursed to NACUFOK in stages based on NACUFOK's certifications as to eligible borrower approval. NACUFOK would in turn disburse loans to approved credit unions who would make loans to approved eligible home buyers.

Basic recommended functions and responsibilities of the institutions involved in the program are outline below:

1. Credit unions: Promotion of Program. Through solicitation, survey the membership to determine income eligibility, loan demand. Receive training and underwrite loan applications. On construction projects, with NACUFOK assistance, solicit and accept low bids from private construction firms and supervise presale of units. With NACUFOK's assistance, monitor construction and costs. Hold loan closings and register pertinent documents. Maintain trained staff to service, control delinquency, foreclose loans, and maintain records. Educate and advise borrowers on responsibilities. Assist and advise on the formation of homeowners associations as needed.

• NACUFOK: Promote program, identify likely eligible credit unions. Solicit income and loan demand surveys. Select credit unions to receive loans. With technical assistance, train headquarters staff and branch office staffs on program targets, concepts and mortgage underwriting and servicing. Provide, through headquarters and branch offices, training to approved credit unions. Render assistance to credit unions on housing design, costing and site inspections on periodic basis. Assist credit unions with loan closings and registrations. Maintain records and monitor sub-loans and delinquency. Execute guaranties, pledges, and design standardized application forms and documents to be used in program. Issue program status reports on periodic basis.

KHB: Review and approve NACUFOK proposals. Review and approve drawdown requests and certifications. Monitor loans and status reports. Execute guaranties, pledges and other pertinent documents.

Assume exchange risk to U.S. lender and AID. Issue loan status and cost report on periodic basis.

Interest rates for this program have not been formalized. The interest rates to be charged to the various borrowing parties must be well thought out, not only to prevent administrative cost losses, but to maintain payment levels affordable to the target income groups.

Should the program proceed as envisioned, the KHB's administrative costs would be drastically reduced on a per loan basis simply due to the nature of one wholesale loan. It is also obvious that under this program concept the highest administrative costs would fall on the credit unions and NACUFOK.

Assuming that the loan to the KHB will carry a combined interest rate of 9.5% (investor + AID) and that the KHB cost of servicing a loan is ½ of 1% (see O'Brien report on KHB Operational Procedures, dated May 8, 1978), an 11% loan to NACUFOK would net the KHB a 1% spread that could be used to cover exchange risk and surplus.

The program implementation cost to NACUFOK could approach an estimated 2% of the total loan value during the first year. These expenses would include architectural and engineering fees, training and organizational work. It is felt that NACUFOK would not have to hire any additional personnel in order to effectively administer this program. After the initial year of implementation, servicing costs should diminish considerably as only approximately 24 loans will have been made to member credit unions. By lending to credit unions at a hypothetical 13%, a 2% spread would be left to cover the initial expenses. Additional costs, if any, could be met by reducing dividend declarations, which, as mentioned are currently felt to be high. Technical assistance provided by AID could also serve to reduce initial program costs.

The above envisioned interest rate framework would allow credit unions to issue long term mortgages at retail (14%) or near-retail rates. By mixing loans between 20 year mortgages and shorter term home improvement loans, the participating credit unions could generate a cash flow that would prove more than sufficient to cover repayment to NACUFOK and servicing costs. As in the case of NACUFOK, it is anticipated that the participating credit unions will not have to hire additional staff.

The above estimates of implementation and servicing expenses were derived through approximations of the present costs of servicing credit union short term portfolios (which on the average are less cost-effective than long term portfolios) and through estimates based on the study teams' past experiences. It suffices to say then, that during the project design phase of this program, these costs will have to be more closely analyzed.

C. Technical assistance

There will be a need to support the program through technical assistance, primarily to NACUFOK. As mentioned, NACUFOK's staff and that of the sampled credit unions demonstrated their technical ability in finance. However, the credit union system, including NACUFOK, has never dealt in long term borrowing or lending. The concept of GPM's adds a new dimension to this concept.

As envisioned in the program design, NACUFOK's cognizant staff would be trained first in the concepts and accounting of GPM's. The training would also encompass loan underwriting techniques, loan closings, servicing and portfolio management (investments, planning). Strict attention would have to be placed on delinquency control.

Once the training phase of NACUFOK's staff is completed, training would then extend into the field at the various credit unions that would be participating in the program. Follow-up visits would be made to monitor progress.

AID could provide this technical assistance to NACUFOK and the credit unions through a Housing Finance/Acountant Specialist who would serve on a short term consultancy of 2-4 weeks. The concepts of long term financing and GPM's would be covered during the TDY as well as initiating accounting practices and bookkeeping systems.

A longer term consultancy would be provided in the form of a Portfolio Manager/Planning Specialist. A two month TDY is envisioned here with probably semi-annual follow up visits extending up to 1½ years. This specialist would train NACUFOK, and with NACUFOK's staff, train cognizant credit union personnel in loan service procedures, especially delinquency control. Planning would also receive special attention, for in order that the credit unions maintain a rapid cash flow, responsible timing of reinvestments and cost controls will have need to be practiced.

NACUFOK will have to provide the program with technical construction expertise during any planned project construction phases. It is suggested, that at the outset, NACUFOK retain the services of an architectural/engineering consulting firm for project design, bid reviews and on site inspections. NACUFOK might consider it feasible to add technical experts to its staff at a later date should it wish to continue in this type of financing subsequent to the HIG program.

Appendix A:
The development of the Credit Union Movement in Korea

1) May 1, 1960 : The first credit union, Holy-family credit union, was established in Pusan City.

2) Apr. 26, 1964: 50 credit union representatives from all over the Korea met and decided to establish "Korea Credit Union League" as an optional organization.

3) Apr. 1971: Representatives from Japan, Hong Kong, Philipine, Thai, Indonesia, Malaysia, Bietnam, Formosa, and Korea held a meeting and established "Asian Regional Confederation of Credit Unions".

4) Aug. ,1972: Credit Union Law was legislated.

5) March ,1973: Representatives from 297 credit unions registered under the Credit Union Law held the meeting and established "National Credit Union Federation of Korea (NACUFOK)" as the non-profit and juridical person.

6) Feb. 28, 1974: "The 10-year Plan for the Development of the Credit Union Movement" was established at the Annual Meeting of NACUFOK.

7) May 1974: NACUFOK acquired IRU membership.

8) Sept. 1976: Provincial Chapters were established under the control of NACUFOK.

9) Feb. 25, 1977: Fifth Annual Meeting was held in Seoul.

Development of Credit Unions (1960-1977)

Year (Dec. 31)	Credit Unions	Members	Shares W	Outstanding Loans W	Assets
1960	3	365	78,896	441,416	42,221
1965	113	16,665	28,541,434	26,797,675	36,584,293
1970	472	77,325	735,679,000	771,144,000	854,709,000
1973	792	206,439	1,846,648,000	2,736,923,000	3,164,267,000
1974	996	389,481	3,934,819,000	6,469,204,000	8,231,897,000
1975	1,140	568,135	9,305,251,000	15,713,230,000	17,854,101,000
1976	1,344	679,751	13,128,426,000	22,628,093,000	28,214,493,000
1977	1,396	670,367	21,338,712,000	40,002,837,000	48,770,511,000

Appendix B:

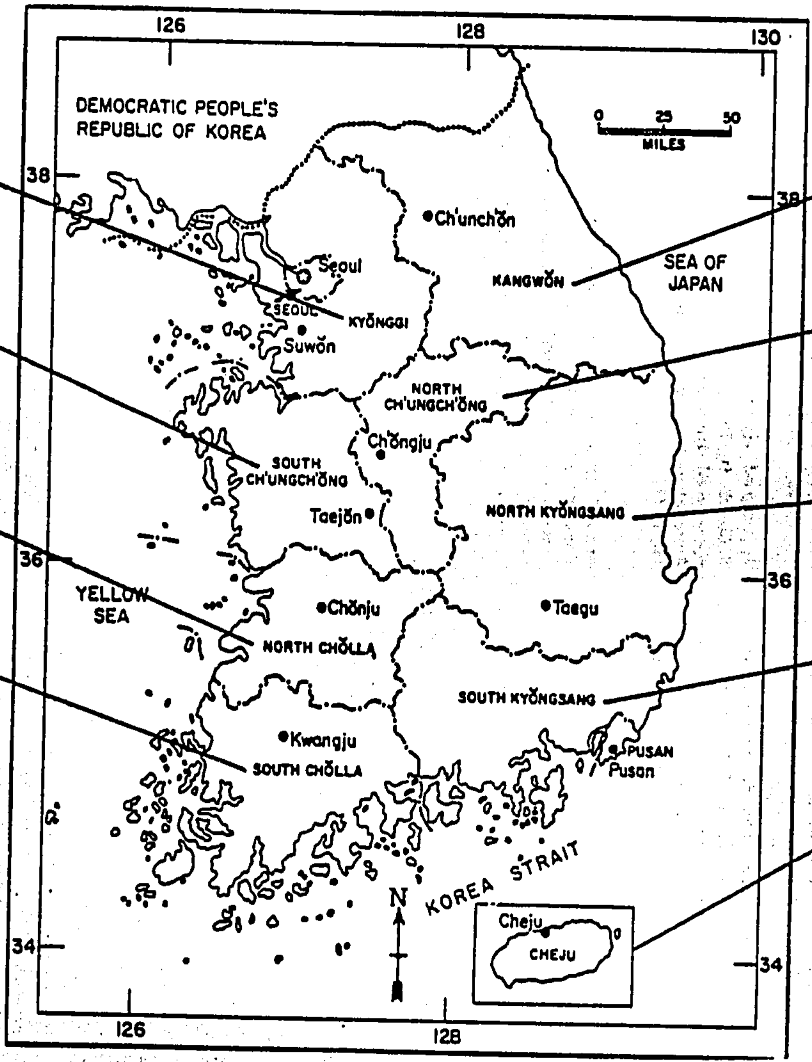
Post	Name	Age	Education	Experience	Others
President	Jong Gil Kim	60	Graduated from teacher's school of Tae-Goo in 1937. Graduated from colleg of law, Japan Zoo-O University in 1941	Passed the judicial examination in 1945. Worked as an associate professor of law at the Pusan Dong-A University in 1954. Elected as a vice president of Pusan Lawyers' Association in 1959. Appointed legal advisor of Je-il life insurance company, LTD. in 1970. Elected as a president of National Credit Union Federation of Korea in February, 1977.	
Vice President	Duck Gynn O	43	Graduated from Tae-jon industrial high school in 1953. Graduated from commercial college of Seoul National University in 1957. Obtained a degree of doctor in economics in 1974. Graduated from the social development course of Canada Coady International Institute in 1976.	Worked as a professor of management at Choong-nam University during 1962-1977. Works as a president of graduate school of business management, Choong-nam University. Elected as a vice president of Tae-jon Mock-Dong credit union. (1968-1975) Elected as a president of Choong-nam Credit Union Chapter. (1969-1975) Elected as a Board member of National Credit Union Federation of Korea. (1970-1974) Elected as a President of Tae-jon Joong-Ang credit union. (1972-1974) Elected as a vice president of NACUFOK in February, 1977.	
Vice President	Soon Woo Lee	42	Graduated from college of law, Young-nam University in 1960. Graduated from Credit Union Leaders course, Cooperative Education Institute in 1970.	Elected as a Board member of Tap-Dong credit union in 1971. Elected as a vice president of Tap-Dong credit union. (1972-1978) Elected as a vice president of Kyng-gi credit union chapter in 1973. Elected as a President of Kyung-gi credit union chapter in 1977. Elected as a director of ACCU in 1977. Elected as a vice president of NACUFOK in February, 1977.	

Post	Name	Age	Education	Experience	Others
Director	Sang Ho Lee	47	Graduated from the department of economics, Cho-sun University in 1957. Studied Cooperative Management Course at the Canada St. Xavier University during June, 1966-August, 1966. Studied Cooperative Course at the Wisconsin State University, U.S.A. during 1966-1967. Practiced at the office of a certified public accountant, Minneapolis, U.S.A. during 1966-1967.	Appointed staff member of Korea Agricultural Bank. (1956-1961) Appointed director of extension department, Korea Cooperative Education Institute, (1962-1964) Elected as a vice president of NACUFOK and as a director of CUNA Internation. (1964-1966) Elected as a President of NACUFOK. (1967-1973) Elected as a Board member of NACUFOK in February, 1977. Works as a lecturer of Kyung-gi College.	Works as a certified public accountant.
General Manager	Chang Yul Kwak	49	Graduated from Fisheries Economics Department of Pusan Fisheries College in 1955. Graduated from short-term cooperative course of Ohio State University, U.S.A. in 1962. Graduated from social leaders course of St. Xavier University in 1962.	Appointed professor of Cooperative Education Institute in 1964. Appointed General Manager of National Credit Union Federation of Korea in 1965. Elected as a director of CUNA International in 1969. Elected as a president of Eastern Sun-Rin credit union in 1972. Appointed General Manager of NACUFOK according to newly legislated Credit Union Law in 1973.	
Auditing Department: Manager	Han Kook Choi	44	Graduated from Department of English Literature, Tae-goa College in 1959.	Appointed field worker of Kyung-book area, NACUFOK in 1972. Appointed staff member of Extension Dept., NACUFOK in 1973. Appointed Extension Dept. Manager of NACUFOK in 1975. Appointed General Affairs Dept. Manager of NACUFOK in 1976. Appointed Auditing Dept. Manager of NACUFOK in 1977.	

Post	Name	Age	Education	Experience	Others
Public Relations Dept. Manager	Hyun Gil Park	36	Graduated from the department of philosophy, Suh-Gang University in 1966. Graduated from Cooperative Education Leaders course of Ebert Fund in Germany in 1972.	Appointed chief of education team of NACUFOK in 1973. Appointed Extension Department Manager of NACUFOK in 1976. Appointed P.R. Department Manager of NACUFOK in 1977.	
Extension Dept. Manager	Byung Kwang O	36	Graduated from the department of English Literature of Suh-Gang University in 1969. Graduated from Cooperative Education Leaders Course of Ebert Fund in Germany in 1972.	Appointed staff member of P.R. department of NACUFOK in 1970. Appointed Insurance Manager of NACUFOK in 1976. Appointed Extension Dept. Manager of NACUFOK in 1977.	
Insurance Manager & Credit Dept. Manager	Yang Soo Chan	36	Graduated from the department of History, Suh-gang University in 1966. Graduated from Insurance Manager Course of CUNA Mutual Society in U.S.A. in 1974.	Served as a voluntary field worker of NACUFOK during 1970-1971. Appointed staff member of Insurance Dept. of NACUFOK in 1971. Appointed Insurance Manager of NACUFOK in 1975 and appointed Credit Dept. Manager in 1977.	

Korean Credit Union System - Spatial Distribution

KEY:
CU's = Credit Unions
R = Registered Credit Union
U = Unregistered Credit Union



176 CU's
95 - R
81 - U

152 CU's
72 - R
80 - U

148 CU's
74 - R
74 - U

102 CU's
65 - R
37 - U

88 CU's
55 - R
33 - U

125 CU's
53 - R
72 - U

106 CU's
48 - R
58 - U

122 CU's
55 - R
67 - U

59 CU's
23 - R
36 - U

* Seoul Special City
187 C.U.'s
101 R
86 U

* Pusan City
128 C.U.'s
79 R
49 U

NOTE: NACUFOK has one branch office in each province and special cities.
TOTAL: 11 branches

Number of Credit Unions, Members, and Sources and Uses of Funds
(Registered and Non-Registered)
April 30, 1978

	Total	Registered	Non Registered
Credit unions	1,393	720	673
Members	673,348	461,911	211,437
Finances (in billion won)			
Sources of Funds:			
1 - Shares	23.1	16.6	6.5
2 - Deposits (including passbook, installment, and other types of deposits)	25.9	22.2	3.7
3 - External Loans (primarily from NACUFOK)	1.5	1.4	.1
4 - Legal Reserves	1.2	.9	.3
5 - Other Reserves and Earned Surplus	6.9	6.1	.8
Uses of Funds:			
1 - Cash	5.1	4.1	1.1
2- Loans Outstanding	45.0	35.7	9.4
3 - Investments	4.0	3.7	.3
4 - Miscellaneous	4.5	3.7	.8
Total Assets	58.7	47.2	11.5

Table 2

Number of Credit Union Members and Sources And Uses of Funds Per Credit Union (Registered and Non-Registered) April 30, 1978

	Registered	Non Registered
Membership	642	314
Finances (in million won)		
Source of Funds:		
1 - Shares	23.0	9.7
2 - Deposits	30.9	5.4
3 - External Loans	2.0	.2
4 - Legal Reserves	1.2	.5
5 - Other Reserves and Earned Surplus	8.4	1.3
Use of Funds:		
1 - Cash	5.6	1.6
2 - Loans Outstanding	49.5	13.9
3 - Investments	5.2	.5
4 - Miscellaneous	5.2	1.1
Total Assets	65.5	17.1

Number of Credit Unions, Members, Sources of Funds, Loans Outstanding- By Urban and Rural Status April 30, 1978

Table 3

	Urban	Rural
Credit Unions	861	532
Members	591,872	81,467
Finances (in billion won		
1 - Shares	17.6	5.5
2 - Deposits	16.0	9.8
3 - External Loans	1.0	.5
4 - Legal	.9	.4
5 - Other	6.3	.7
Total Assets	41.8	16.8
Loans Outstanding	32.1	13.0

Table 4

Number of Members, Sources of Funds, Loans Outstanding-Per Credit Union By Urban and Rural Status April 30, 1978

	Urban	Rural
Members	687	153
Finances (in million won)		
1 - Shares	20.5	10.3
2 - Deposits	18.6	18.4
3 - External Loans	1.2	1.0
4 - Legal Reserves	1.0	.7
5 - Other Reserves and Earned Surplus	7.3	1.2
Total Assets	48.6	31.7
Loans Outstanding	37.2	24.4

Table 5

Number of Credit Unions Classified By Asset Size April 30, 1978

Range (in million won)	Number of Credit Unions	Total Assets (in billion won)	Average (in million won)
Less than 5	298	1.2	4.0
5 to 10	486	3.4	7.1
10 to 50	326	8.6	26.3
50 to 100	165	10.6	64.1
100 to 500	106	22.3	210.5
More than 500	12	12.5	1,043.6
Total	1393	58.7	42.1

Table 6
Projections on Credit Union Targets Using Linear Regression Analyses

	Credit Unions	Members	Shares	Loans	Assets
1978	1,560	803,780	34,057,702,000	71,888,065,000	90,169,321,000
1979	1,699	900,788	56,460,557,000	129,145,119,000	164,284,907,000
1980	1,839	997,797	93,599,813,000	232,005,991,000	299,320,549,000
1981	1,979	1,094,805	155,168,942,000	416,792,985,000	545,350,103,000
1982	2,119	1,191,813	257,237,701,000	748,758,220,000	993,606,138,000
1983	2,259	1,288,821	426,446,388,000	1,345,125,497,000	1,810,310,758,000
	r^2=.98	r^2=.92	r^2=.97	r^2=.98	r^2=.98

Credit Unions - $y = 300.67 + 139.87\,X$

Members - $y = -69{,}292.11 + 97{,}008.09\,X$

Shares - $y = 360{,}119.77\,e^{.51X}$

Loans - $y = 368{,}863.75\,e^{.59X}$

Assets - $y = 407{,}576.38\,e^{.60X}$

Table 7
Sampled Credit Unions

Name	Common Bond	Date Organized	Number of Members	Assets (in Mil. Won)	Number of Staff
Seoul:					
Central	Community	1971	1,500	700	15
Severance Hospital	Employer	1969	1,360	367	10
Christian	Loacation	1975	365	104	5
Saehan	Employer	1974	1,300	127	5
Pusan:					
Kwangan	Community	1965	830	117	6
Railway Workers	Employer	1977	3,122	50	3
Daeshin Dong	Community	1962	474	65	2
Daejeon:					
Mok Dong	Community	1968	1,600	380	8
Saedaejeon	Community	1972	1,800	800	18
Communications Workers	Employer	1973	450	57	2

Interest Rates and Terms on Deposits And Loans For A Sampled Credit Union

* Share Subscription: 1,000 won or more per share

Each member of union must subscribe one share or more and make payment of the share in cash. Net profit will be distributed as dividends to the members in proportion to member's paid-in share subscription.

* Time Deposits — Minimum deposit amount: 100,000 won

maturity	interest rate	Bank's offered rate
6 months	18.0	13.8
12 months	19.2	14.4
more than 12 months	20.0	14.4

* Credit Time Deposit (Notice Deposit) minimum deposit amount: 300,000 won

maturity	interest rate (%)	daily interest paid per 1 million won
more than 10 days, but not longer than one month	12.0	333
more than one month, but not longer than two months	15.0	410
more than two months, but not longer than 3 months	16.2	443
3 months or more	17.4	476

Table 8 (continued)

* Pass-book Deposit:

Withdrawable at any time at 4.8%, per annum.

Each member who has opened a pass-book deposit account with the union is eligible for application of loans, small-sum or short-term loan.

* Household Deposit: Minimum deposit amount: 10,000 won

Withdrawable at any time at the interest rate of 12%, per annum, being credited to the account every 15 days.

* Credit Installment Deposit Maximum contract amount: 3,000,000 won

Maturity	Contract Amount	(Payments by Depositor) Monthly Installment	Total to be Paid	Interest Earned	Bonus	Total Value at Maturity	Effective Rate
6mos.	10,000	1,634	9,804	196	122	10,122	15,31%
	20,000	3,268	19,608	392	244	20,244	15.31%
	30,000	4,902	29,412	588	366	30,366	15.31%
	50,000	8,170	49,020	980	610	50,610	15.31%
12 mos.	10,000	794	9,528	472	212	10,212	15.02%
	20,000	1,588	19,056	944	424	20,424	15.02%
	30,000	2,382	28,584	1,416	636	30,636	15.02%
	50,000	3,970	47,640	2,360	1,060	51,060	15.02%
18 mos.	10,000	516	9,288	712	296	10,296	14.36%
	20,000	1,032	18,576	1,424	592	20,592	14.36%
	30,000	1,548	27,864	2,136	888	30,888	14.36%
	50,000	2,580	46,440	3,560	1,480	51,480	14.36%
24 mos.	10,000	377	9,048	952	394	10,394	14.21%
	20,000	754	18,096	1,904	788	20,788	14.21%
	30,000	1,131	27,144	2,856	1,182	31,182	14.21%
	50,000	1,885	45,240	4,760	1,970	51,970	14.21%
36 mos.	10,000	237	8,532	1,468	536	10,536	14.05%
	20,000	474	17,064	2,936	1,072	21,072	14.05%
	30,000	711	25,596	4,404	1,608	31,608	14.05%
	50,000	1,185	42,660	7,340	2,680	52,680	14.05%

Table 8 (continued)

* Daily Installment Deposit

Before loan closing			After loan closing		
maturity	daily installment	payment at maturity	maturity	daily installment	payment at maturity
100 days	980	100,000	100 days	1,100	100,000
180 days	535	100,000	180 days	655	100,000

* Housing Installment Deposit

Type / Term	500,000	1,000,000	2,000,000	3,000,000	5,000,000
18 months	25,400	50,800	101,600	152,400	254,000
36 months	11,500	23,000	46,000	69,000	115,000
60 months	5,750	11,500	23,000	34,500	57,500

Table 8 (continued)

LOANS

Type	maximum repayment period	interest rate	Maximum loan amount
General Loan	36 months	24% p.a.	5 times the amount subscribed for loans below 500,000 won. 3 times the amount subscribed for loans between 500,000 and 1,000,000 won. 2 times the amount subscribed for loans between 1,000,000 and 3,000,000 won.
Small-sum loan	3 months	24%, p.a.	5 times the average balance of pass-book deposit account for a period of 15 days, but not exceeding 100,000 won.
Small-sum loan	30 months	19.2%, p.a.	Up to the amount of shares subscribed.
Short-term loan	3 months	25%, p.a.	3 times the average balance of pass-book deposit account for a period of 3 months, but not more than 3 million won.
Personal loan on installments	contract * period of installment	19.2%, p.a.	Up to 3,000,000 won.
Housing Installment Loan	contract* period	13.2%,p.a.	Up to 5,000,000 won.
Daily Installment Loan	contract period	13.2%, p.a.	Up to 3,000,000 won.
Emergency Loan	6 months	12%, p.a.	Up to 200,000 won.

* Some Reach as High as 48 Months

Table 8 (continued) NOTE

The various deposit programs offered by this credit union illustrate its efforts to capture the different types of surplus funds that may be available at any one time. For example, large amounts of capital available for only a short period of time may be profitably invested in a notice deposit program. Lesser amounts available for a longer period of time may be invested in either the household deposit or time deposit programs. Savings that will accumulate over a given period of time may be invested in one of the installment deposit accounts.

Similarly, a variety of loan types are offered to correspond with borrower needs. Short term/large sum loans as well as long term/small sum loans, plus everything in between including emergency loans are offered. For two programs, daily and housing installment, the deposits and loans are linked. A member contracts to save a specified amount over a specified period which yields the stated maturity payment. This then serves as the capital upon which he can borrow. For example, a member may contract to save W23,000 per month for 36 months under the housing installment deposit program, yielding a maturity value of W1,000,000. Upon completion of the contract he would be eligible for a housing loan of perhaps W3,000,000 over 36 months at 13.2% annual interest.

The rates and terms shown here are fairly representative of rates and terms found throughout the system. It should be noted however that many members cannot afford the contract savings systems that are linked to the lower rate loans (i.e. housing installment deposit program). Most members appear to choose more flexible savings programs and then secure higher rate loans such as the personal installment loan.

Table 9

Credit Union Loans by Purpose

January 1 - December 31, 1977

Purpose	Number of Loans	Total Amount (in bil. won)	Average Amount
Business and Producti	17,000	18.1	1,066,000
Education	14,000	1.0	72,000
Debt Consolidation	25,000	7.8	313,000
Merchant/Commercial	43,000	31.0	722,000
Medical	9,000	1.1	122,000
Household Expenses	33,000	9.3	281,000
Housing	37,000	21.3	576,000
Miscellaneous	26,000	2.3	88,000
	204,000	92.0	451,000

Loans For Housing Purposes-
Sampled Credit Unions

Name	
Seoul:	
Central	- Started housing loans 1976. To date, about 50 loans totaling W40 million for acquisition. Interest rate 14.4%.
Severance Hospital	- 163 loans totaling W200 million at 18%/30 months for acquisition. Home improvement -- 60-70% of all loans.
Christian	- 80% of all loans for home improvement.
Saehan	- Purchase - 575 loans (loans on equity in property).
Pusan:	
Kwangan	- 1975-77 data. Home improvement - 15% of all loans, key money and rent - 11%. 1965-74 data — 16.5% loans for housing purposes. 30-40 construction loans, very few acquisition loans.
Railway Workers	- 1977 data. Improvement - 35 loans/W3.5 million, purchase - 13/W1.8 million, key money 33/W3.0 million. Interest 18%/10 to 20 months.
Daeshin Dong	- Housing loans (repair, secondary financing) 1974-77 -- 27 loans/W13.8 million, include 5 construction loans. Interest 18-24%/10-40 months.
Daejeon	
Mok Dong	- 33% of all loans for housing, mostly for home improvement - 20% and key money. No purchase or construction experience, have provided secondary financing. Maximum loan - W2 million. 18-24%/30 months.
Saedaejeon	- 1977 data. 329 housing loans for W222 million, mostly for construction and purchase (secondary financing only). Very little for improvement.
Communications Workers	- 1977. 15 loans for construction. (Trade union has developed its own self-help program, outside credit union structure.)

Table 11

Estimated Housing Needs - Sampled Credit Unions

Name	
Seoul:	
Central	- 50% of membership do not own houses; 25% would be eligible and able to afford. Estimated number - 375.
Severance Hospital	- 20% eligible. Estimated number - 272.
Christian	- 50% of membership do not own houses.
Saehan	- 40-50% of employees do not own houses.
Pusan:	
Kwangan	- 500 members (60%), or 300 families, do not own houses.
Railway Workers	- Over 50% of membership do not own houses.
Daeshin Dong	- 100 of the 360 families (28%) do not own houses.
Daejeon:	
Mok Dong	- 80% of membership do not own houses, or 1,000 families. Probably 50% would be able to afford.
Saedaejeon	- 50% of membership do not own houses.
Communications Workers	- 80% of membership do not own houses.

Estimates of Credit Union Members in Lower Income Groups

Name	Member Income Estimates
Seoul:	
Central	- W50,000/mo. average (rough estimate).
Severance Hospital	- 40% below median*based on member salary only. Most have outside income to reduce to 20% below median.
Christian	- 40% below median (president's estimate).
Saehan	- 20% below median, when overtime wages included.
Pusan:	
Kwangan	- 90% below median, W75,000/mo. average.
Railway Workers	- 0% below median, (government workers received large increase in wages beginning in 1975).
Daeshin Dong	- W60,000/mo. average.
Daejeon:	
Mokdong	- 70% below median.
Saedaejeon	- 30% below median.
Communications Workers	- 10% below median.

*Median used = W120,000/month on a national basis

Table 13

Credit Union

TRAINING COURSES (1964 - 1977)

(Unit : Person)

Year \ Course	C.U. Leaders Training Course	Short-Term Introductory Course	Night Training Course	C.U. Officers Training Course	C.U. Presidents Training Course	C.U. Employees Training Course	C.U. Supervisors Training Course	Auditors Training Course	Total
1964	40								40
1965	45			150					195
1966	45								45
1967	40			200					240
1968	48								48
1969	95			400					495
1970	90			450					540
1971	95			300					395
1972	95			530					625
1973	100			620					720
1974	100	100		680	50	500			1,430
1975	100	150	120	860	50	600		65	1,945
1976	95	132	180	920		180	600	55	2,162
1977	123	137	204	752	70	665	603	60	2,614
TOTAL	1,111	519	504	5,862	170	1,945	1,203	180	11,494

Table 14

Interest Rates And Terms On Deposits And Loans In NACUFOK Interlending Program

NACUFOK DEPOSITS

Type	Monthly Interest Rate %
1. Passbook	.4
2. Special	.7
3. Notice	
Less than 30 day	.84
Less than 60 day	1.2
Less than 90 day	1.25
More than 90 day	1.45
4. Installment-Regular	.9
Installment-Building	.67

NACUFOK LOANS

Type	Monthly Interest Rate %	
1. General Advance	1.6	2 Years
2. Special Loans to Rural Credit Unions	1.2	2 Years
3. Short Term		
a.	1.4	30 Days
b.	1.6	60 Days
c.	1.8	90 Days
4. Building Loan (for credit union building)	1.2	2 Years

Table 15

LOANS MADE BY NACUFOK

(August 1, 1976 - September 30, 1977)
(Unit: 1,000W)

Purpose of Loans	Number of Loans	Amount of Loans
House Repairs	115	120,521
Farm Land Arrangement	53	72,103
Stock Raising	41	49,015
Industrial Crops Production	33	33,206
Grain Production	56	73,638
Business Improvement	58	87,261
Pay off the Debts	86	102,730
Education Expenses	38	56,193
Medical Care	29	47,438
Others	28	35,198
Total	537	677,303

TABLE 16

COMPARATIVE CONSOLIDATED BALANCE SHEET
OF MEMBER CREDIT UNIONS
1964 - 1977
(In Millions of Won)

			ASSETS					LIABILITIES AND CAPITAL							
Year	Number Of Credit Unions	Number Of Members	Cash	Loans	Investments	Other	Total	Shares Subscribed	Passbook Savings	Time Deposits	Installment Deposits	Loans Payable	Legal Reserves	Other (Voluntary Reserves)	Total
1964	82	11,565	4.7	14.9	-	1.0	20.6	16.7	-	-	-	-	0.3	3.6	20.6
1965	113	16,665	7.5	26.8	-	2.2	36.5	28.5	-	-	-	-	0.6	7.4	36.5
1966	150	30,205	13.9	114.7	-	7.0	135.6	102.5	-	-	-	-	3.1	30.0	135.6
1967	228	34,520	28.1	214.0	-	39.2	281.3	194.3	-	-	-	-	4.2	82.8	281.3
1968	267	41,625	30.6	331.4	-	43.5	405.5	325.6	-	-	-	-	8.2	71.7	405.5
1969	327	50,905	38.2	408.0	-	54.1	500.3	413.2	-	-	-	-	10.2	76.9	500.3
1970	472	77,325	39.0	771.1	15.1	29.4	854.6	735.7	-	-	-	10.7	19.8	88.4	854.6
1971	582	100,455	22.1	1,033.2	26.2	12.1	1,093.6	973.8	-	-	-	20.5	25.1	74.2	1,093.6
1972	694	138,686	25.9	1,427.2	32.1	35.2	1,520.4	1,229.4	92.5	-	-	27.0	30.3	141.2	1,529.4
1973	792	206,439	258.1	2,736.9	57.0	112.2	3,164.2	1,846.6	749.6	-	381.6	32.3	44.0	110.1	3,164.2
1974	996	389,481	1,076.4	6,469.2	354.1	332.2	8,231.9	3,934.8	1,675.7	-	743.1	327.2	101.4	1,449.7	8,231.8
1975	1,140	568,135	905.5	15,713.2	569.0	666.4	17,854.1	9,305.3	4,250.5	-	3,150.4	351.4	460.6	335.9	17,854.1
1976	1,344	679,751	2,046.1	22,628.1	1,291.3	2,249.0	28,214.5	13,128.4	6,258.6	-	4,965.2	840.6	610.5	2,411.2	28,214.5
1977	1,396	670,367	3,344.2	40,002.8	1,576.5	3,847.0	48,770.5	21,338.7	5,621.6	6,064.8	7,761.2	1,073.8	812.6	6,097.8	48,770.5

NACUFOK (INTERLENDING PROGRAM)

Comparative Balance Sheets 1976 - 1977
(In 000 W)

	1976	1977	% Δ
ASSETS			
Cash	46,938	58,451	+ 24.53%
Loans Outstanding	325,320	457,090	+ 40.50%
Inter-Office Loans	40,047	50,731	+ 26.68%
Accounts Receivable	20	168	+740.00%
Interest Receivable on Deposits	11,996	19,618	+ 63.54%
Deposits With Nacufok Branches	89,000	135,730	+ 52.51%
Investment	30,000	40,000	+ 33.33%
Other	—	5,000	—
Office Fixtures, Equipment	451	799	+ 77.16%
TOTAL ASSETS	W543,772	767,587	+ 41.16%
LIABILITIES AND RESERVES			
Deposits from Member CUs	396,251	534,876	+ 34.98%
Building Installment Deposits	21,393	61,040	+185.33%
Share Subscriptions	62,830	91,715	+ 45.97%
Accounts Payable	781	1,683	+115.49%
Special Reserves (Includes Subsidy)	52,439	61,766	+ 17.79%
Regular Reserves	4,315	4,891	+ 13.35%
Earned Surplus for Period	5,763	11,616	+101.56%
TOTAL LIABILITIES AND RESERVES	W543,772	767,587	+ 41.16%

NACUFOK (INTERLENDING PROGRAM)

Comparative Income Statements 1976 - 1977
(In 000 W)

	1976	1977	Δ %
INCOME:			
Interest Income	37,694	64,093	+ 70.04
Investment Income	414	2,576	+ 522.22
Gross Income	38,108	66,669	+ 74.95
Less: Interest Paid	21,781	40,917	+ 87.86
A) TOTAL OPERATING INCOME	16,327	25,752	+ 57.73
EXPENSES:			
Salaries	5,501	7,842	+ 42.56%
Administrative Expenses	2,222	3,989	+ 79.52%
Business Training Expenses	2,781	1,498	- 46.13%
Vehicle Expenses	60	807	+1,245.00%
B) TOTAL EXPENSES	10,564	14,136	+ 33.81%
NET INCOME PRIOR TO DIVIDENDS (A-B)	W 5,763	11,616	+ 101.56%

NACUFOK (INTERLENDING PROGRAM)

Financial Ratios 1976 - 1977

A. Balance Sheet Ratios (Monetary Amounts in 000s W)

1) $\frac{\text{Avg. Liquidity}}{\text{Avg. Assets}} = \frac{52,695}{655,680} = 8.04\%$

2) $\frac{\text{Avg. Risk Assets}}{\text{Avg. Assets}} = \frac{391,205}{655,680} = 59.66\%$

3) $\frac{\text{Avg. Risk Assets + Avg. Branch Loans}}{\text{Avg. Assets}} = \frac{436,594}{655,680} = 66.59\%$

4) $\frac{\text{Avg. Risk Assets}}{\text{Avg. Total Deposits}} = \frac{391,205}{584,052} = 66.98\%$

5) $\frac{\text{Avg. Total Deposits}}{\text{Avg. Assets}} = \frac{584,052}{655,680} = 89.08\%$

6) $\frac{\text{Avg. Equity (Reserves)}}{\text{Avg. Risk Assets}} = \frac{70,395}{391,205} = 17.99\%$

Income Ratios

		1976	1977
1)	Salaries & Administrative Expenses / Gross Income =	20.27%	17.75%
2)	Interest Paid / Interest Earned =	57.78%	63.84%
3)	Total Expenses / Total Operating Income =	64.70%	54.89%
4)	Net Income / Avg. Assets =	--	1.77%
5)	Interest Income / Avg. Risk Assets =	--	16.38%
6)	Interest Paid / Avg. Risk Assets =	--	10.46%
7)	Salaries + Admn. Expenses / Avg. Risk Assets =	--	3.02%

NOTE: The Financial Statements and subsequent ratio analysis deal only with the Interlending Program and not Nacufok as a whole. Information derived from the preceding tables should be considered distinct from statistics on Nacufok mentioned elsewhere in the report.

Number of Village Banks, Members, and Assets, by Registered/Non-Registered and Urban/Rural Status.
March 31, 1978

	TOTAL	URBAN	RURAL
Village Banks	41,759	4,688	37,071
Registered	1,415	512	903
Non-Registered	40,344	4,176	36,168
Members	6,383,827	3,410,488	2,972,339
Registered	1,063,159	937,171	125,988
Non-Registered	5,320,668	2,473,317	2,847,351
Assets (Billion Won)	145.6	92.1	53.5
Registered	52.7	44.5	8.2
Non-Registered	92.9	47.6	45.3

Note: Membership figures include children and persons under 20 years of age. Based on the sample village banks visited, about 60% are in this category. We are unable to estimate the percentage for the entire movement, but we assume it to be substantial.

Table 21

Membership and Assets in Average Village Bank, by Registered/Non-Registered and Urban/Rural Status. March 31, 1978

	AVERAGE	URBAN	RURAL
Members	153	727	80
Registered	751	1,830	140
Non-Registered	132	592	79
Assets	3.5	19.6	1.4
Registered	37.2	87.0	9.1
Non-Registered	2.3	11.4	1.3

Table 22

Number of Village Banks Classified by Asset Size April 30, 1978

Assets (In Million Won)	Number of Village Banks
Less than 1	25,550
1 - 3	11,798
3 - 5	1,882
5 - 10	930
10 - 50	1,080
50 - 100	285
100 - 500	233
500 - 1,000	13
More than 1,000	3