

UNITED STATES GOVERNMENT

# Memorandum


489-HG-007/02

PC-111-246

150-155119

TO : Distribution

DATE: 9/21/78

FROM : ASIA/PD, M. Milburn Pehl 

SUBJECT: Housing Investment Guaranty (\$25 Million Tranche for FY78) - 489-HG-007) -- Asia Project Advisory Committee Meeting (APAC)

An Asia Project Advisory Committee (APAC) Meeting is scheduled for Monday, September 25, 1978, at 10:00 a.m. in Room 1912 N.S. to consider the proposed authorization from FY 78 authority of a second tranche in the Korea HIG for FY's 77 and 78 of \$25 million.

A copy of a progress report prepared by the Regional Housing and Urban Development Office (RHUDO/Seoul) detailing achievements in meeting objectives of the total HIG program is distributed with this announcement to APAC members as well as a draft memo to AA/ASIA for authorization of the tranche. Copies of the PP were distributed last year. If unable to locate, a limited number of copies is available from ASIA/IK or ASIA/PD.

Also distributed with this announcement is a brief issues paper developed after the Project Committee Meeting held September 20, 1978.

Your participation is invited.

## Attachments:

1. RHUDO/Seoul Progress Report
2. Draft Memo to AA/ASIA
3. Issues Paper

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PROGRESS REPORT:

KOREA HOUSING GUARANTY PROGRAM 1977-78

## PROGRESS REPORT:

### KOREA HOUSING GUARANTY PROGRAM 1977-78

In September 1977, the Asia Bureau and the Development Loan Committee reviewed and approved a two-year (1977-78) Housing Guaranty Program for Korea. Originally submitted as a \$50 million program, the two-year program was subsequently reduced by the Asia Bureau to a level of \$40 million. The first tranche of \$15 million was authorized on September 30, 1977, and a loan negotiated and agreements signed on November 20, 1977. Authorization of the second phase was to be made on the basis of a report of satisfactory progress of the first-phase implementation.

The 1977 phase of the two-year program was designed to assist the KNHC provide expanded opportunities for housing for lower-income families, with the introduction of a graduated-payment mortgage system. The 1977 program was also designed to assist the KHB undertake analysis of its current operations and procedures in order to prepare the KHB to expand its operations to include provision of housing finance for lower-income families. The second-phase 1978 loan is intended to build upon the progress under phase 1, to assist the KHB actually implement new and innovative programs addressing shelter needs of lower-income families.

#### PROGRESS AND CURRENT STATUS

##### A. KNHC Program

As of June 30, 1978, \$10 million of the \$15 million HG loan has been disbursed. A total of 1,770 units have been constructed and sold in the Seoul area, utilizing the graduated-payment mortgage technique. Construction has also begun on 800 units in Masan, Andong, and Kumi. Construction is scheduled to begin on another 1,070 in June, July, and August, with completion scheduled for November and December 1978 and June 1979.

The original estimate prepared in August 1977, for the construction of 4,520 units in Seoul and secondary cities was revised in June 1978, as the result of unexpected increases in costs of land and construction. The revised plan is for construction of 3,640 units. The number of units in Seoul have been reduced from 3,270 (72%) to 1,770 (49%), and the units in smaller growth centers have been increased from 1,250

(28%) to 1,870 (51%). The mix of units is 47% 10- to 11-pyong apartments and row houses, 15% 8-pyong apartments and row houses, and 38% 13-pyong apartments. Target income groups and income limitations have been established ranging from 15 to 30 percentile in Seoul and 20 to 50 percentile in smaller cities. A 10% sample of units completed and occupied in Seoul indicated that 11% of the purchasers are below the 20 percentile and 100% are below the 30 percentile. Verification of family incomes in Korea continues to be difficult; however, KNHC has introduced as part of the AID project a verification procedure requiring income certificates from employers or income tax certificates for those who are self-employed. The available evidence indicates the AID projects in Seoul have been successful in reaching lower-income families.

As part of the 1977 program the KNHC developed with AID consultant assistance a graduated-mortgage financing system which is being used in the HIG-funded project. In summary, as the result of the introduction of the graduated mortgage, lower-income families are still able to afford units notwithstanding the higher mortgage interest rate and the significant increases in the cost of land and construction. Without the introduction of the graduated mortgage system, lower-income families would have been priced out of the market and pressure would increase more than it has for a heavy subsidy approach to public housing.

#### B. Korea Housing Trends

MOC is starting to plan the 1979 construction programs and details of the 1979 construction plan will not be available until December 1978. MOC sources indicate that the major change in 1979 will be the introduction of a category of public housing called "welfare apartments" which will be lease/purchase units of 10 pyong and smaller size. MOC is proposing to include 5,000 to 10,000 of these units in its 1979 proposal along with 10,000 standard lease/purchase apartments (13-pyong size). The preliminary MOC proposal for 1979 is construction of 320,000 units equally divided between the public and private sector.

Limited data available from MOC indicates that within the category of public sector apartments constructed for sale in 1978, 99% will be smaller than 20 pyong (i.e., 13 to 20 pyong). By comparison in 1976 only 87% of public sector apartments were between 13- and 20-pyong size, and 13% were between 20 and 25 pyong.

While it is impossible to establish direct causal relationships, it is nevertheless worth noting that MOC has focused on production of smaller (i.e., 10 to 13-pyong) units as a

major part of its 1979 program directed at lower-income groups. This approach was introduced by AID in Korea over the past three years. It is also worth noting that the private sector is starting to respond to the effective demand for lower-cost units that has been demonstrated to exist under the previous AID projects. Within the private sector, apartment units of less than 25-pyong size have increased from 58% to 82% of total private sector apartment construction. Even more significant in the private sector has been the increasing trend to construct more smaller units (i.e., 13 to 20 pyong) which accounted for 34% of total private sector apartment construction in 1976 and increased to 40% in 1978.

In the area of ROKG finance and monetary policy, the ROKG instituted a monetary stabilization program in early 1978 to prevent a massive upward surge in the domestic money supply as the result of increased foreign earnings. The ROKG Ministry of Finance has implemented a monetary stabilization policy to neutralize these net inflows. At the same time, the ROKG has instituted an import liberalization program to bring net foreign financial inflows into line with domestic monetary policy and it is anticipated that as the import liberalization policy takes hold, the monetary stabilization policy will be relaxed. As part of the overall monetary stabilization program the KHB along with other government banks has been required to maintain monetary stabilization accounts with the Bank of Korea. The KHB lending program for 1978 is nevertheless projected at a level 45% above its 1977 program.

### C. KHB Program

Pursuant to the authorization of the 1977 loan, negotiations were held in Seoul in October and November 1977 to establish a work program intended to prepare the KHB to be the borrower under the 1978 loan. The result of these negotiations was the signing of an agreement with the Economic Planning Bureau (EPB) of the ROKG. The agreement required the ROKG to undertake a series of analytical studies reflecting the areas identified in the 1977-78 Project Paper. KHB agreed to assume responsibility for the various studies and AID would provide short-term consultant assistance. Such consultants were provided to assist the KHB prepare a graduated-mortgage financing plan, analyze the KHB's internal operations, and the feasibility of KHB lending as a wholesaler to the Korea Credit Union movement. As the result of the joint efforts of the consultants and the KHB's staff, the above analyses were made. While KHB was initially suspicious of AID's efforts as intervention into KHB's affairs, the consultants' efforts over the past year together with frequent AID

contact have resulted in a change in attitude and willingness on the part of KHB to look at alternatives to their current operations and test new ideas related to servicing lower-income families.

As part of the negotiation of the 1977-78 program, the ROKG agreed to undertake a number of actions designed to improve the efficiency of its housing finance system. These proposals are contained in the MOC letter to AID dated June 1, 1977, and are summarized below along with a progress/status report on their implementation.

Proposed Action

- |  |   |
|--|---|
| a. Increase authorized capital of KHB by W40 billion.                          | - Approved by 1977 session of ROKG National Assembly.   |
| b. Increase KHB paid-in capital by W5 billion in 1978 and W10 billion in 1979. | - Increase of paid-in capital has not yet been made. ROKG 1978 budget provides for W2 billion increase. EPB indicates the ROKG will try to provide an additional W3 billion in 1978.  |
| c. Establish additional branch offices of KHB.                                 | - 12 branch offices opened in 1977 and 17 openings planned for 1978.  |
| d. Reorganization of KHB Board of Directors.                                   | - Board of Directors reorganized on December 19, 1977.  |
| 3. Increase the mortgage interest rate.  | - 14% rate effective as of January 1, 1978, and increased to 16.5% in June 1978.  |
| f. Increase the short-term deposit interest rate at the KHB.                   | - Effective as of July 1977 and subsequently revised in January 1978. Current deposit rates are 6% for deposits of less than 30 days and 12.6% for deposits in excess of 30 days. Deposit rates are applicable to all banks and are not preferential rates only available at KHB. |

- g. Establish contract (Welfare Housing Installment) saving plans at KHB. - Established May 1977. As of July 1978 a total of 68,336 accounts have been opened with total paid-in installments (deposits) of W23.5 billion (\$48.7 million).
- h. Establish evaluation function within KHB. - KHB indicated it has expanded function of its Research Dept. to include an evaluation function.
- i. Establish Graduated-Payment Mortgage System within KHB. - KHB has agreed to a GPM as described in KHB's letter of July 27, 1978.
- j. Study of KHB operations, credit unions. - Consultant and KHB staff reports completed. Final report to be prepared after review by KHB Directors
- k. Raise additional W10 billion (\$20 million) annually through sale of National Housing Bonds. - As of June 30, 1978, KHB had raised a net W33 billion (\$68 million) through National Housing Bond sales.
- l. Increase interest rate on National Housing Bonds from 6% to 12%. - Interest rate on National Housing Bonds was raised to a nominal rate of 10% compounded to an effective rate of 12.2%.
- m. Establish uniform 20-year maturity on housing loans. - Effective as of January 1978.
- n. Increase KNHC-authorized capital by W100 billion (\$208 million). - To be submitted to 1978 session of ROKG National Assembly.

As indicated above, the ROKG and KHB have complied with an extensive series of requirements and conditions negotiated with AID as part of the 1977-78 HIG program and established as preconditions to the second phase of that program.

D. Program Description

The Korea Housing Bank (KHB) was established in 1967 as a quasi-governmental institution, dedicated primarily to the mobilization of domestic saving and to the provision of long-term home financing for low and moderate-income families.

The KHB is organized as a centralized institution with a nationwide branch network, which by the end of 1977 had grown to 50 branches and 25 subbranches. Approximately 2,900 people are employed by the KHB.

The KHB is fundamentally a depository institution, offering demand savings, and time deposits, including several installment savings plans. In addition, the KHB issues tax-exempt housing debentures and enjoys the proceeds of the compulsory sales of National Housing Bonds. National Housing Bonds alone accounted for 30 percent of outstanding KHB liabilities at the end of 1977.

During its eleven-year history, the KHB assets have grown to US \$826.9 million. While the growth of the Korean economy has been spectacular over this same period, with per capita gross national product rising from US \$156 at the end of 1967 to US \$864 at the end of 1977, KHB assets have grown at roughly twice the rate of growth of the Korean economy. While general economic growth accounts in large measure for the KHB's performance over the past decade, the tremendous demand for housing in the Korean culture, and the strong saving tradition among the Korean people, must be considered as important additional causal factors.

KHB lending to date has consisted of a) pass through wholesale lending of National Housing Funds to the KNHC, local governments and other government agencies, and b) retail mortgage lending of deposit funds for construction of apartment and detached single family housing. The KHB to date has not addressed itself to the incomes of families obtaining financing under either of these two approaches. In lieu of incomes, the KHB restricts units sizes for which financing is available to no more than 25 pyong and no less than 12 pyong (in Seoul the lower limit permitted by the City is 15 pyong). Maximum loan amounts are also established for different unit sizes within this 12 to 25 pyong range.



The KHB does not prepare a detailed annual lending program indicating targets for lending to various income groups or for various unit sizes. What planning is done is limited to aggregate estimates of lending by fund sources to various institutions. The 1978 lending program of the KHB is presented below:

<u>Source of Funds</u>	<u>Borrower</u>	<u>Won Amount (000)</u>	<u>\$ (000)</u>
National Housing Bonds		<u>76,880,000</u>	<u>159,000</u>
	KNHC	34,200,000	71,000
	Local Governments	28,000,000	58,000
	Rural Housing (Nat'l Ag. Fed.)	10,000,000	21,000
	Others: reserved for emergency and relief programs	4,680,000	10,000
Lottery Proceeds (reserved for disabled veterans and welfare housing)		<u>2,800,000</u>	<u>6,000</u>
Banking funds (i.e. deposits)		<u>47,712,000</u>	<u>99,000</u>
	Nat'l Ag. Fed. Individuals and Builders	7,000,000	15,000
		<u>40,712,000</u>	<u>84,000</u>
Total		<u><u>127,392,000</u></u>	<u><u>264,000</u></u>

The Korea Housing Bank has requested AID financial assistance in the form of a \$25 million Housing Investment Guaranty Loan to undertake a program consisting of long-term (i.e. 20 year) mortgage financing for lower income families in Korea. The KHB program would include wholesale lending to Korea Credit Unions for subsequent relending as mortgage financing and home improvement loan financing for members of Korea Credit Unions. The KHB program would also include wholesale lending to the Korea National Housing Corporation and local governments for mortgage financing on low income housing and retail mortgage lending by KHB to purchaser of low income housing produced by the private sector.

1/ Exchange rate of Won 483 to \$.

Loans made by Credit Unions, KNHC and local governments and direct KHB mortgage lending will be restricted to the financing of housing affordable by families earning less than the median family income, as such, this will be the first time KHB has used family income as its basic criteria for mortgage lending. The median income is currently estimated to be W132,000 (\$273) and is projected to increase to W162,000 (\$335) by July 1, 1979 and W183,000 (\$379) by January 1, 1980.

Lending criteria to be utilized by the KHB and required for the subborrowers are: 20 year maturity, 16.5% effective mortgage lending rate; use of an approved graduated mortgage; maximum downpayments of 50% in Seoul and 30% in all other areas; no more than 20% of monthly income assumed to be available for service of the mortgage debt. KHB underwriting procedures will otherwise reflect its normal procedures.

For lending to the KNHC, the KHB will rely upon the design and construction management expertise of the KNHC. For projects involving local governments and credit unions the subborrowers will be required to submit project plans, designs, cost estimates and sales plans to KHB for approval.

Of the proposed \$25 million HIG loan, \$5 million will be re-loaned by KHB to Korean Credit Unions; \$10 million will be loaned by KHB to KNHC for relending as long-term mortgage financing to purchasers of KNHC apartments and row houses; \$5 million will be available for borrowing from KHB by local municipalities for subsequent mortgage financing and \$5 million will be used by KHB for retail mortgage financing of privately developed low income housing projects.

Estimates of the absorptive capacity and effective demand for low income housing through the Credit Union movement were developed by the KHB with assistance of AID consultants from CUNA and NSLL. The estimate of absorptive capacity of KNHC is based upon AID's prior experience with the KNHC. Excluding any AID financing the KNHC program for 1978-79 is construction of 33,500 units. KNHC has already demonstrated its ability to carry out annual programs in excess of 33,000 units. The \$10 million AID financing will allow the KNHC to expand its 1978-79 program by an additional 1,500-2,000 units or a total of 35,000 to 35,500 units.

Estimates of the demand by local cities and private developers are nominal since no surveys have been undertaken. In previous years individual local governments and private developers have carried out housing programs of up to 1,000 to 2,000 units. In view of the overall housing demand in Korea and past programs carried out by local governments, the proposed amounts for local cities and private developers are considered to be within their administrative capacity.

### E. Project Implementation

Subsequent to authorization of the loan, KHB will negotiate sub-loan agreements with the KNHC and local governments assuring the availability of long-term mortgage financing for qualified purchasers of low income housing projects approved by KHB.

Local governments will be advised of the availability of this financing and interested city governments will submit project proposals. KHB will select the best proposals and enter into sub-loan agreements. Construction financing will be provided by KHB under its normal construction financing procedures. Disbursements to the local governments and KNHC will be on the basis of construction financing and presentation of eligible mortgages.

Similar procedures will be utilized in the development and administration of lending programs with private developers. In this case the program will be developed with the nominated builders under the Housing Promotion Law.

In terms of lending to Credit Unions, preparatory to entering into sub-loan agreements interested credit unions will be required to submit project proposals identifying the incomes of their membership and effective demand of their members for mortgage financing and evidence of the financial and management capability of carrying out mortgage financing and home improvement loan financing programs. Selected credit unions will submit project proposals for KHB review and sub-loan agreements will be negotiated. Disbursements under this component of the program will include construction financing and take out mortgage financing for qualified and eligible borrowers.

In view of the lead time required to put the various components of the program together it is anticipated that negotiation of a loan with a U.S. lender will not occur prior to January, 1979 and the program will be completed in 1980.

The Asia Regional Office of the Office of Housing will administer and monitor the project subject to policy and program guidance of USAID/Korea. A full time direct hire position will be required within RHUDO Asia to assist the KHB develop the detailed credit union, secondary cities and private sector programs and monitor the overall project implementation.

Total Housing Guaranty Financing 525.0 million  
 Total financing to be available a) Seoul area 5.0 (20%)  
 For lending in: b) Busan, Daegu 5.0 (20%)  
 c) Other cities 15.0 (60%)

Sub-borrowers.

Total financing to be a) KNEC 510.0 (40%)  
 b) Local gov. 5.0 (20%)  
 c) Private builders 5.0 (20%)  
 d) Credit unions 5.0 (20%)

Seoul area, Busan, and Taegu

Total financing to be available for units with a total cost including land and development not to exceed the following levels with downpayments of approximately 50%.

<u>Max. costs of units completed mid 1979</u> (Won)	<u>Max. costs of units completed end 1979</u> (Won)	<u>Total HIG financing available</u> (\$)	<u>Target income percentile level</u>
up to 4.0 mil.	up to 4.8 mil.	<u>5mil</u> (50%)	20-25th
up to 4.8 mil.	up to 5.6 mil.	<u>5mil</u> (50%)	25-30th

Other cities

Total financing to be available for units with a total cost including land and development not to exceed the following levels with downpayments of approximately 30%.

<u>Max. cost of units completed mid 1979</u> (Won)	<u>Max. cost of units completed end 1979</u> (Won)	<u>Total HIG financing available</u> (\$)	<u>Target income percentile level</u>
up to 3.4 mil.	up to 4.0 mil.	<u>5mil</u> (33.4%)	30th or below
up to 4.0 mil.	up to 4.7 mil.	<u>5mil</u> (33.3%)	30-40th
up to 5.0 mil.	up to 5.6 mil.	<u>5mil</u> (33.3%)	40-50th



# THE KOREA HOUSING BANK

## 韓國住宅銀行

61-1, KA TAEPYUNG-RO, CHUNG-KU, SEOUL, KOREA

TEL. 75-5621, 5741

Mr. Sean P. Walsh  
chief  
Regional Housing and Urban Development office  
The United States Agency for International Development

July 27, 1978.

Dear Sir:

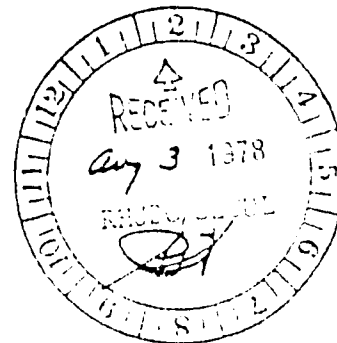
reply to your request at the meeting held on July 14, 1978 concerning the EPB/USAID understanding, we are pleased to send you our Proposal to AID for 1978 AID Housing Investment Guaranty Loan as attached herewith.

Sincerely yours,

Dong Hee Park

President

The Korea Housing Bank



KHB Proposal to AID for 1978 AID Housing Investment Guaranty Loan

Amount of Loan : US\$25,000,000

2. Purpose of Loan : To alleviate severe housing shortage by extending the Korea Housing Bank's housing loans to lower income groups, financed with AID guaranty loan.

3. Uses of Loan : i) Loan proceeds will be used to finance housing construction and purchase of serviced sites for sub-borrowers and individuals.  
ii) Home improvement loan, proposed in the project paper, will be excluded from the use of loan proceeds on the ground that there has been few applications for home improvement and in addition, confirmation of the completed improvement work imposes a difficult task upon the Korea Housing Bank.

4. Borrowers Eligible for AID Guaranty Loan:

- (1) Sub-borrowers: KHHK, Local governments, Private builders, Credit union now under consideration.
- (2) Individuals : Private individuals who intend to borrow money directly from the KHB for the construction of their own houses.

5. Target Income Groups:

(1) Criteria for selecting target income groups:

Seoul and other larger cities: 20percentile to 30percentile ✓  
Secondary cities : 40percentile to 50percentile ✓

(2) Level of Monthly Income and Loanable Amount:

- a. Monthly income level in 1979 will be the basic factor in identifying income bracket ranges eligible for AID guaranty loan;
- b. Capacity of end-user to pay monthly payment for mortgage loan will be estimated at 20% of his monthly income
- c. Beginning payment (initial payment) under GIM to be adopted by KHB will be set as follows:  
$$\text{Loan amount} \times \frac{(\text{U.S. lender interest rate}) + (\text{AID guaranty fee}) + (\text{Administrative cost of KHB})}{12}$$

d. Loanable amount to each eligible income group will be calculated as follows:

The first year total of monthly payments  $\div$  starting rate of monthly payment to loan amount

e. Sales price of dwelling unit will be calculated as follows:

Seoul: loanable amount  $\div$  0.5(50%)  
Secondary cities: loanable amount  $\div$  0.7(70%)

1. Size of dwelling unit will be determined as follows:

Multi-family unit (apartment and row house):  $\frac{\text{Sales price calculated under "c"}}{\text{unit price per "pyong"}}$

Single family unit:  $\frac{\text{Sales price calculated under "c"} - \text{housing lot price}}{\text{construction cost per "pyong"}}$

(3) Target Income Group Ranges:

a. Multi-family unit

Seoul: 20 percentile to 30 percentile (monthly income range: 99,077won to 117,372won)

Secondary cities: 40 percentile to 50 percentile (monthly income range: 131,329won to 157,264won)

b. Single-family unit

Seoul: 50 percentile (monthly income range: 164,555won)

(4) Monthly income, Capacity of end-user to allocate his monthly income to monthly mortgage payment, loanable amount, Sales price of dwelling unit, and size of dwelling unit: won unit: pyong

a. Multi-family units

Location	estimated income level in the last half of 1994 (A)		monthly payment capacity (B) 4.25%	Initial payment (C) 15%	loanable amount (D) 87.75%	Sales price of unit (E) i)	Size of unit (F) ii)	Selection of target income groups
Seoul and other major cities (200 pop. or more)	20 percentile	99,077	19,815	237,780	2,610,000 2,372,220	4,140,000 3,755,000	12.5 $\frac{1}{2}$ 13	O
	30 percentile	117,372	23,474	281,638	2,816,360	5,633,160	14.6 $\frac{1}{2}$ 15	O
	40 percentile	131,329	27,116	327,192	3,271,970	6,555,840	17.3 $\frac{1}{2}$ 17	X
	50 percentile	164,555	32,711	392,542	3,925,320	7,850,640	20.1 $\frac{1}{2}$ 21	X

Secondary cities (Iri, Masan, Wolsan, Banzol and Changwon)	20 percentile	95,267	19,053	228,636	2,286,360	3,266,229	8.6 ± 9	X
	30 percentile	112,858	22,572	270,864	2,708,640	3,869,486	10.2 ± 10	X
	40 percentile	141,329	26,266	315,192	3,151,920	4,502,743	11.8 ± 12	O
	50 percentile	157,264	31,453	377,436	3,774,360	5,391,943	14.2 ± 14	O

i) Seoul: D±0.5, Secondary cities : D±0.7

ii) E± unit price per "pyong"

b. Single-family unit (Seoul)

unit: won  
pyong

estimated income level in its first half of 1979 (A)	monthly payment capacity (B) A ± 20%	initial payment (C) B ± 10%	loanable amount (D) C ± 20%	Subprice of unit (E) D ± 2%	Size of Unit			Selection of target income group	
					Housing lot price (F)	construction cost (G) E-F	Size of unit (H) G		
20 percentile	99,077	19,815	237,780	2,377,800	4,755,600	3,200,000	1,555,600	6.2	X
30 percentile	117,372	23,474	281,688	2,816,880	5,633,760	3,200,000	2,433,760	9.8	X
40 percentile	146,582	27,316	327,792	3,277,920	6,555,840	3,200,000	3,355,840	13.4	X
50 percentile	163,555	32,711	392,532	3,925,320	7,850,640	3,200,000	4,650,640	18.7	O

i) lot size : 50"pyong" , purchasing cost per "pyong" : 64,000won 150,000

ii) G± construction cost per "pyong" in 1979 (249,000won)



Application of a Graduated Payment Mortgage Loan to 1978 AID Housing Investment Guaranty Loan

(1) Effective interest rate on loan:

AID guaranty loan will be charged 16.5% effective rate of interest over the entire life of the loan, in compliance with new interest rate on housing loans which came into effect from June 13, 1976.

(2) Beginning Payment :

The initial payment under GPM to be adopted by the KHB will be set at a rate level which will include U.S. lender interest rate, AID guaranty fee, and 1% of the KHB's administrative cost for handling loans.

(3) Type of Graduated Payment Mortgage :

The GPM under which the KHB plans to release AID guaranty loan proceeds will be arranged in such a way that monthly payment will increase annually on equal difference increase basis so that the effective interest rate on loan may reach 16.5% per annum. *- Details will be submitted report*

(4) Disposition of KHB's administrative cost :

The administrative cost for handling AID loan by KHB will be compensated by deducting an average 2.5% of the loan amount over the whole loan period with an exception in the first year of it. *- justification will be submitted*

(5) Establishment of Special Reserve Account for Balance of Spread

The balance of spread remaining after deducting repayment to U.S. lender, AID guaranty fee, and 2.5% of KHB handling cost, will be reserved at a Special Reserve Account and used for compensating exchange risks. The final balance of spread will be reinvested into identical housing loans. *- cash*

(6) Fees having paid by KHB to U.S. lender, AID, and U.S. lawyer will be charged to borrowers by one time payment at the time of loan closing. *2% : 500,000,000 won : \$105 per closing*

7. Loan Implementation Plan

(1) Allocation of Loan Proceeds, by Use

Housing construction loans:	9,700million won (US\$20,000millions)	:	80%
Purchase of serviced sites:	2,425million won (US\$ 5,000millions)	:	20%
<b>Total</b>	<b>: 12,125million won (US\$25,000millions)</b>		<b>: 100%</b>

(2) Loan Policy for Housing Construction

a. Allocation of loan proceeds.

Seoul and other larger cities	:	40% of the total loan proceeds
Secondary cities	:	60% of the total loan proceeds
Multi-family units	:	90% of the total loan proceeds
Single-family units	:	10% of the total loan proceeds

b. Size of Dwelling Unit

Apartment and Row house:	Seoul and other larger cities:	13"pyong" and 15"pyong"
	Secondary cities	: 12"pyong" and 14"pyong"
Single-family unit	Seoul	: 18"pyong"

Terms and Conditions of Loan

a) Interest rate	16.5% p.a. (effective rate)
b) Repayment period	20 years
c) Repayment method	GMP

d. Loan Ceiling

Seoul and other larger cities	50% of the House price
Secondary cities	70% of the House price

e. Down payment

Seoul and other larger cities	50% of the House price
Secondary cities	30% of the House price

Location	Criteria for selecting location	Income percentile Percentile	Income required (won)	Allocation of funds (%)	Size of unit	Allocation amount	Loan ceiling per unit (won)	Number of housing units to be financed
Seoul and other larger cities	Larger cities with severe housing shortage	20 to 30	99,077 ~ 117,372	30	apartment unit 13"pyong", and 15"pyong"	2,910million won	2,660,000 based on 14 "pyong" unit size	1,093 units
		50	163,555	10	Single-family unit 18"pyong"	970million won	3,858,000	253 units
Secondary cities Incheon, Masan Wulsan	Industrial cities	40 to 50	131,329 ~ 157,264	40	apartment unit 12"pyong" and 14"pyong"	3,880million won	3,458,000 based on 13 "pyong" unit size	1,122 units
Banwol Changwon	Newly- established Industrial cities	40 to 50	131,329 ~ 157,264	20	apartment unit 12"pyong" and 14"pyong"	1,940million won	3,458,000 based on 13 "pyong" unit size	561 units
Total				100		9,700million won		Multi family unit 2,775; Single-family unit 253

- \* Price of apartment unit per "pyong" in the first half of 1979 is estimated at 380,000won.
- \* Price for single-family unit is estimated on the assumption that housing lot price per "pyong" and construction cost per "pyong" are 64,000won and 249,000won, respectively.

c. Prices of Houses and Monthly Payment

unit in won

Location	Type of House	Price of House			Downpayment	Loan Ceiling	Monthly Payment (GPR)		Equal difference annual increase
		lot	Building	total			initial payment	Last payment	
Seoul and other target cities	apartment unit 13 "pyong"			4,940,000	2,470,000	2,470,000	20,583	77,010	35,637.7
	apartment unit 15 "pyong"			5,700,000	2,850,000	2,850,000	23,750	88,857	41,126.4
	Single family unit lot size: 50 "pyong" floor space: 18 "pyong"	3,200,000	4,482,000	7,682,000	3,841,000	3,841,000	32,008	119,755	55,418.8
Secondary cities	apartment unit 12 "pyong"			4,560,000	1,368,000	3,192,000	26,600	99,520	46,054.9
	apartment unit 14 "pyong"			5,320,000	1,596,000	3,724,000	31,033	116,107	53,730.7

\* Method of calculating an equal difference of annual constant increase under the proposed GPR, provided that the GPR loan is payable in 20 years with 16.5% of effective interest rate charged on it and initial payment level of 10% of loan amount

$$\text{Equal difference} = \frac{\text{Loan amount} \times (1+0.165)^{20} - \text{First year total of monthly payments} \times \frac{(1+0.165)^{20} - 1}{0.165}}{\frac{(1+0.165)^{20}}{0.1652} - \frac{20}{0.165}}$$

\* Beginning monthly payment =  $\frac{\text{Loan amount} \times 10\%}{12}$

Last monthly payment =  $\frac{\text{First year payment} + (20 - 1) \times \text{Equal difference}}{12}$

*Korea 008 - Aug 10 1978*



ECONOMIC PLANNING BOARD  
REPUBLIC OF KOREA  
Seoul, Korea

August 10, 1978

Mr. Sean P. Walsh  
Regional Housing Officer  
USAID/K

Dear Mr. Walsh:

Enclosed please find the information with regard to the Understanding between the Economic Planning Board of the Republic of Korea and the United States Agency for International Development (USAID) relevant to the AID Housing Guaranty Loan.

I would like to draw your attention to the fact that the necessary actions specified in the said Understanding shall be made by and through the authorities concerned of our Government and USAID.

I can authoritatively state that we have already made certain provisions on banking policies to meet the requirements of the Understanding and that the proper actions will be made year by year.

Therefore, I would like to suggest that the agreement of the 1978 AID Housing Guaranty Loan be concluded as soon as possible.

Looking forward to your cooperation and assistance, I remain

Sincerely yours,

Sung Yong, Wei  
Deputy Director-General  
Economic Cooperation Bureau



Attachment: As stated.

Promotion Program and Implementation Status of the Understanding

Disposition	Remarks
(B-1)	Beginning January 1, 1978, mortgage lending terms were unified into an interest rate of 14% per annum and a 20 years loan repayment period without discrimination of fund sources.
(B-2)	On July 1, 1977 a new savings deposit system, with the title "Home Savings Deposit", was established exclusively for the Korea Housing Bank. The interest rates payable on the new system were set at 8% for deposits of under 30 days, 12% for deposits of 30 days to 90 days, and 15% for deposits exceeding 90 days. On October 4, 1977 the "Home Savings Deposit System" was changed into the "Savings Deposit System" with an interest rate of 8% for deposits of under 30 days, 11% for deposits of 30 days to 90 days and 13.2% for deposits

Disposition	Remarks
-------------	---------

of more than 90 days, and the National Citizens Bank and Medium Industry Bank were also authorized to offer savings deposits. The interest rate adjustment on deposits effective from January 6, 1978 permitted all banking institutions to offer savings deposits and at the same time the interest rates on the deposits were changed to 6% for deposits were changed to 6% for deposits of less than 30 days and 12.6% for deposits exceeding 30 days.

(B-3)

Matters falling under the jurisdiction of the Economic Planning Board and Ministry of Finance.

1) The Korea Housing Bank Act of 1967 was amended as of Dec. 19 1977 by the resolution of the Congress, and as a result, the authorized capital of the Korea Housing Bank will be

Disposition	Remarks
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increased by 50 billion won.

2) According to the 1978 ROKG budget program the amount of capital for KHB was earmarked at 2 billion won, but ROKG would make effort to increase the paid-in capital by 5 billion won.

(B-4)

Program of raising funds by issuing national housing bonds:



Disposition	Remarks
-------------	---------

(Unit: Million won)

Year				
Classifi- cation	'78	'79	'80	'81
issue	70,000	85,000	95,000	110,000
redemption	9,347	14,601	18,168	25,000
funds available	60,653	70,399	76,832	84,692

(B-5)

In compliance with the amendment of the KHB Act as of December 19, 1977, the Board of Directors was instituted and is now in operation.

The Operational System Improvement Plan formulated in December 1977 projected an increase of 61 additional branch offices by 1981, and KHB is now making efforts to implement this plan.

#### Annual Program for Establishing Branches

77	78	79	80	81	Total	Remarks
						12 offices opened in 1977
						4 offices carried over

Disposition	Remarks
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As a first step KHB plans to apply GPM to the financing of the 1978 AID housing guaranty loan for sub-borrowers. In the event that GPM proved to be more effective than the level payment system KHB would gradually apply GPM to all housing loans.

(C-2)

Based on section E-1 of the Understanding, KHB has performed studies on those matters in cooperation with AID consultants and is establishing a more detailed program at present.

(C-3).

Same as above.

(C-4)

Same as above.

(C-5)

With assistance of AID consultants, KHB studies have concentrated on the analysis of the eligibility and potential of NACUFOK and its individual credit unions to absorb the AID housing loan.

However there are still many difficult problems to be solved.

Disposition	Remarks
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NACUFOK does not have construction specialist or engineers on its staff, nor members with financial and technical experience on long term housing loans; there is also no guaranty for the repayment of principal and interest the problem of offering security by NACUFOK and credit unions and the amount of administrative costs permitted for handling the AID loan should be solved, prior to the sub-lending of the AID Housing Loan to NACUFOK.

After KHB personnel scrutinize the credit union's capacity to absorb the AID loan, KHB will notify USAID/K of KHB's view whether or not KHB will select the credit union as a sub-borrower.

(C-6)

KHB will negotiate with USAID officers about the determination of the target income group, the loanable amount, the size of the unit and the repayment method under the AID Housing Guaranty Loan.

(C-7)

Matters falling under the jurisdiction of EPB and MOC.

Disposition	Remarks
	According to the annual plan of the 4th 5-year plan in which the construction of 1.3 million housing units was envisaged, KHB will provide the best program possible.

(C-8)

The Plan for Improvement of Operational Systems, for the expansion of KHB was agreed upon by the concerned government authorities (EPB, MCF, MCC) on June, 1977, and KHB will take measures to implement this plan annually.

(C-9)

During 1978 KHB has expanded the functions of the Research Department to include the evaluation of the Bank's program. KHB will intensify the function of the Research Department annually to achieve the objectives referred to in C-8 above.

(F)

KHB has been discussing with the con-

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Disposition

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Remarks

(EPB, MOF) the appropriation of reimbursed funds from the counterpart fund which ROKG advanced to KHB in 1968 for the financing of housing construction on terms repayable in 30 years with a 10-year grace period. Considering the complicated procedures of the current Budget-Accounting Law, especially those concerning the appropriation of reimbursed funds, and the fact that the proposed studies entail consumption expenses, it is desirable for KHB to find an alternative to such procedures. KHB is now seeking a method of covering the expenses for the proposed studies with KHB's own funds.

ECONOMIC PLANNING BOARD  
REPUBLIC OF KOREA  
Seoul, Korea

July 25, 1977

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

Dear Mr. Sneider:

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

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

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

Sincerely yours,

*Duck-Woo Nam*  
Duck-Woo Nam  
Deputy Prime Minister  
and  
Minister of Economic Planning

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



**THE KOREA HOUSING BANK**  
**韓國住宅銀行**

61-1, 1 KA, TAEPYEONG-RO, CHUNG-KU, SEOUL, KOREA

TEL. 75-5621, 5741

Mr. Sean P. Walsh  
Chief, Regional Housing and Urban Development Office  
USAID  
Seoul

Dear Mr. Walsh

As the result of the continuing discussion between KHB and USAID and our meeting of August 29 I wish to supplement my letter of July 27, 1978 as follows:

KHB proposes to lend HIG loan to the following institutions in the amounts indicated:

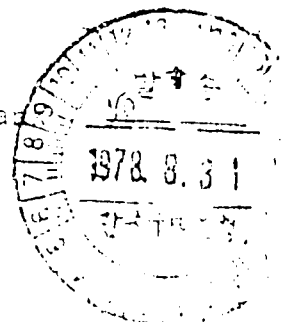
KNHC	\$10 million
Local Governments	\$ 5 million
Private Builders	\$ 5 million
Credit Unions	\$ 5 million

KHB in consultation with USAID will establish criteria and procedures for use of HIG loan by above sub-borrowers to include income eligibility of the 20 to 50 percentile. Current estimates of 1979 target income groups and affordable sales prices are outlined on the attached summary page.

USAID and KHB have agreed that the proposed 2.5% administrative costs for this loan will be reviewed and that final agreement will be made on the basis of an analysis of the administrative costs involved in implementation of this loan.

Finally, I wish to confirm our agreement that KHB will lend a portion of the AID loan to Korean Credit Unions for their use in making mortgage and home improvement loan financing to eligible Credit Union members.

Park Dong Hee  
President  
The Korea Housing Bank



Allocation of AID Guaranty Loan, by Sub-borrower and Location

Total Housing Guaranty Financing 525.0 million  
 Total financing to be available For lending in:  
 a) Seoul area 3.0 (20%)  
 b) Busan, Daegu 15.0 (20%)  
 c) Other cities 15.0 (60%)  
 d)

Sub-borrowers.

Total financing to be  
 a) KNHC 510.0 (40%)  
 b) Local gov. 5.0 (20%)  
 c) Private builders 5.0 (20%)  
 d) Credit unions 5.0 (20%)

Seoul area, Busan, and Taegu

Total financing to be available for units with a total cost including land and development not to exceed the following levels with downpayments of approximately 50%.

<u>Max. costs of units completed mid 1979</u>	<u>Max. costs of units completed end 1979</u>	<u>Total financing available</u>	<u>Target income percentile level</u>
up to 4.0 mil.	up to 4.6 mil.	<u>5mil</u> (50%)	20-25th
up to 4.6 mil.	up to 5.6 mil.	<u>5mil</u> (50%)	25-30th

Other cities

Total financing to be available for units with a total cost including land and development not to exceed the following levels with downpayments of approximately 30%.

<u>Max. cost of units completed mid 1979</u>	<u>Max. cost of units completed end 1979</u>	<u>Total financing available</u>	<u>Target income percentile level</u>
up to 3.4 mil.	up to 4.0 mil.	<u>5mil</u> (33.4%)	30th or below
up to 4.0 mil.	up to 4.7 mil.	<u>7mil</u> (33.3%)	30-40th
up to 5.0 mil.	up to 5.6 mil.	<u>5mil</u> (33.3%)	40-50th



MAXIMUM UNIT PRICES

maximum unit size when total cost including land and development is as follows:				
sales price (millions)	300,000 won/py	400,000 won/py	500,000 won/py	600,000 won/py
3.0	10.0	10.0	10.0	10.0
3.2	10.7	8.0	6.7	5.3
3.4	11.3	8.5	6.5	5.1
3.6	12.0	9.0	6.3	4.9
3.8	12.7	9.5	6.1	4.7
4.0	13.3	10.0	6.0	4.6
4.2	14.0	10.5	5.9	4.5
4.4	14.7	11.0	5.8	4.4
4.6	15.3	11.5	5.7	4.3
4.8	16.0	12.0	5.6	4.2
5.0	16.7	12.5	5.5	4.1
5.2	17.3	13.0	5.4	4.0
5.4	18.0	13.5	5.3	3.9
5.6	18.7	14.0	5.2	3.8

## DETERMINATION OF LOANS

monthly household income	maximum monthly payment at 20%	maximum <sup>†</sup> affordable loan with GPM (millions)	maximum sales price with 30% downpayment (millions)	maximum sales price with 20% downpayment (millions)	approximate income percentile level assuming continued growth at 25-30%		
					mid-1977	end-1977	
50,000	10,000	1.1	2.2	1.5			
60,000	12,000	1.3	2.6	1.9			
70,000	14,000	1.5	3.0	2.1			
80,000	16,000	1.7	3.4	2.4			
90,000	18,000	2.0	4.0	2.9	20th		
100,000	20,000	2.2	4.4	3.1			
110,000	22,000	2.4	4.8	3.4	30th	20th	
120,000	24,000	2.6	5.2	3.7			
130,000	26,000	2.8	5.6	4.0	40th	30th	ceiling for Seoul
140,000	28,000	3.1	6.2	4.4			
150,000	30,000	3.3	6.6	4.7		40th	
160,000	32,000	3.5	7.0	5.0	50th		
170,000	34,000	3.7	7.4	5.3			
180,000	36,000	3.9	7.8	5.6		50th	ceiling for other city
190,000	38,000	4.1	8.2	5.9			
200,000	40,000	4.4	8.8	6.3			

<sup>†</sup> with payments during the initial year set at 11% of the loan amount ÷ 12

ACTION MEMORANDUM FOR THE  
ASSISTANT ADMINISTRATOR FOR ASIA

FROM: DS/H, Peter Rimm

SUBJECT:

~~Issue:~~ Korea Housing Program 1977-1978 - Authorization of the second phase of the 1977-78 Housing Investment Guaranty for Korea.

Summary: Pursuant to Asia Bureau approval of the Project Paper for a \$40 million 1977-78 HIG program in Korea. In September 1977, the ROHC has requested a final HIG loan in the amount of \$25 million to assist the Korea Housing Bank initiate new lending programs and procedures directed at provision of shelter for lower income families through long-term mortgage and home improvement loan financing.

Proceeds of the 1978 loan will be sub-loaned by the KHB to the Korea National Housing Corporation, local governments, and Foreign Credit Unions for subsequent mortgage and home improvement loan financing for lower income families. The KHB will also provide long-term mortgage financing for low-income families purchasing housing produced by the private sector.

All lending will utilize a graduated mortgage payment system similar to that introduced in 1977 with an effective rate of 16.5% at a 20 year maturity.

Principal target beneficiaries of FHB lending under this loan will be families with incomes between the 20th and 50th income percentile.

Discussion: In September, 1977 the Asia Bureau and the Development Loan Committee approved a Project Paper calling for a two year \$40 million housing guaranty program for the Republic of Korea (ROHC). The two year program was designed to assist the ROHC develop new techniques in the field of long-term mortgage financing and to support the growth and expansion of the Korea Housing Bank (KHB) to include programs directed at the shelter needs of lower income families.

The first tranche of the two year program was approved and authorized at a level of \$15 million to finance Korea National Housing Corporation (KNHC) construction and sale of small apartments and row houses in Seoul and secondary cities affordable by lower income families utilizing for the first time a graduated payment mortgage system.

In addition, the 1977 program was to include assistance to the EHB in the design of graduated mortgage financing techniques for EHB use in 1978 in an effort to enable more lower income families to afford housing. The introduction of the graduated mortgage concept was critical to the subject of affordability in light of the ROEG decision, supported by U.S. consultant analysis and recommendations, to increase the mortgage lending rate for public housing from 8 to 14%. The final element of the 1977 program was to provide assistance to the EHB in analysis of their own operation and the EHB's future development as the central housing finance institution in Korea.

The 1977-78 program was submitted to the Development Loan Committee and approved in September, 1977. The 1977 tranche was authorized by the AID/Asia Bureau on September 30, 1977 and the loan negotiated and signed on November 20, 1977. Authorization of the second phase of the two year program was to be made on the basis of a progress report on ROEG and EHB implementation of improvements in the housing finance policy and system.

The proposed 1978 loan is the final Housing Guaranty that can be made to Korea under existing legislation which limits authorization of Housing Guaranties to no more than two years beyond authorization of other AID programs.

The attached Progress Report describes the ROEG and EHB accomplishments during the past year. In summary, the ROEG and EHB have met a series of requirements agreed upon with AID during negotiations of the first phase loan as pre-conditions to AID authorization of the final loan. The ROEG has also reconfirmed its desire for the final loan to initiate new housing finance techniques including utilization of a graduated payment mortgage, expansion of the EHB program to include credit unions and low-income mortgage financing of private sector housing and the utilization of family income as the basic lending criteria.

Recommendation: In view of the compliance of the ROKG and KHB with the conditions negotiated with AID as pre-conditions to the second phase of the 1977-78 HIG program and the opportunity this final loan presents to AID to introduce innovations in the lending program and operations of the KHB to the benefit of lower income families it is recommended that the second phase previously approved as a part of the two year program be authorized in the amount of \$25 million.

Attachment:

1. Progress Report

Approved: \_\_\_\_\_

Disapproved: \_\_\_\_\_

Date: \_\_\_\_\_

Clearance:

DS/E:DMcVoy	_____	Date	_____
DS/P:ETGrossman	_____	Date	_____
GC/H:MEitay	_____	Date	_____

DS/II:SWalsh:ejt:9/14/78:X20042

## ISSUES PAPER

### Korea Housing Investment Guarantee Program FY 1978 Tranche

At its meeting on September 20, 1978, the Project Committee decided to recommend APAC approval of the 1978 tranche for the HIG program in Korea, subject to resolution of the following issues:

Authorization: Should the Administrator or the AA/ASIA authorize the second tranche? PPC interprets AID Circular A-24 (Handbook 3, Chap. 3) as requiring authorization by the Administrator because the level of the second tranche is over \$10 million. GC/H and GC/ASIA interpret A-24 and Delegations of Authority as authorizing the AA/ASIA to approve the second tranche notwithstanding that it exceeds \$10 million.

KHB Paid-in Capital: An "Understanding Between the Economic Planning Board of the Republic of Korea and the United States Agency for International Development" dated November 20, 1977 and relevant to this project included a listing of actions already taken or to be taken by ROKG including increasing the paid-in capital of the KHB by W5 billion in 1978. The progress report indicates that the planned increase of paid-in capital has not yet been made. The ROKG 1978 budget provides for a W2 billion increase; EPB indicated that the ROKG will try to provide an additional W3 billion in 1978/79. According to the Chief of the Asia Regional Housing Office, the plan to increase the paid-in capital of the KHB was an ROKG objective and its inclusion in the 1977 Understanding was not at AID's request, although it was considered an indication of continuing ROKG support of the KHB. Also, according to the Chief of the Asia Regional Housing Office, the KHB has sufficient equity and the failure to increase the paid-in capital by W5 billion is not therefore expected to adversely affect the KHB's lending capability.