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General Summary of the Housing Finance Systems of Selected Nations in the Asian and Pacific Region

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DEPARTMENT OF STATE
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FOREWORD

This study was conducted by the Office of Housing of the Agency for International Development (A.I.D.) for the United Nations Habitat and Human Settlements Foundation (UNHHSF). The purpose of the study was to collect information on the structure and programs of institutions, in Asia and the Pacific region, that finance human settlements. The undertaking is in preparation for the United Nations Regional Meeting on Human Settlements Finance and Management to be held in Manila, Philippines in June 1979.

The countries covered in this study are: the Philippines, Indonesia, Malaysia, Sri Lanka, India, South Korea, and Thailand.

The study was performed by Mark L. Korell and Michael Unger, Housing Finance Economists, of the Federal Home Loan Bank Board, through a Participating Agency Service Agreement with A.I.D. Field work was conducted in April 1979.

While the information presented is not to be considered the official position of either the United Nations Habitat and Human Settlements Foundation or of the Agency for International Development, it is hoped that it will be a useful source of data for the forthcoming U.N. Meeting.

David McVoy
Assistant Director
for Operations
Office of Housing

GENERAL SUMMARY
OF THE
HOUSING FINANCE SYSTEMS
OF SELECTED NATIONS
IN THE ASIAN AND PACIFIC REGION

MAY 3, 1979

TABLE OF CONTENTS

PHILIPPINES

GENERAL INTRODUCTION

The housing finance system in the Philippines is currently in a state of transition and rejuvenation. Cognizant of the difficulties confronting the housing sector, including needs for over 900,000 new units and 900,000 upgraded units over the next five years, government action has been taken to reinforce the ability of the public sector in mobilizing the required resources.

The Ministry of Human Settlements (MHS) was established in 1978 under Presidential Decree No. 1396 to carry out government policy of fostering the growth and renewal of urban and rural communities in an integrated manner that promotes optimum land use, adequate shelter, environmental protection, utilization of appropriate technology and rational inter-dependence among self-reliant communities. A number of shelter-oriented entities have been merged under MHS.

Housing investments may generally be classified by source and by type of target beneficiary.

By source, these investments may be categorized into those provided by the private financial institutions and those undertaken by government.

The private sector's involvement in housing is mainly through the existing network of commercial banks, savings and mortgage banks, insurance companies, savings and loan associations. Through these institutions, the private sector provides financing for both individual housing and for real estate development.

On the other hand, the government sector's participation in housing is undertaken through a number of institutions, involving the granting of loans for individual and group housing, the financing of land development and the construction of housing units.

As to type of target beneficiary, the National Housing Authority (NHA) classifies housing investments into open market housing, economic housing and social housing.

Open market housing is generally intended to serve the needs of the higher and higher middle income groups. This means above about $5000 annual income (all such figures are 1978 U.S. dollars) and includes about 3% of the urban population. Because of the nature of this clientele, open market housing involves a high return on investment (15% to 19%) and higher cost housing. Private financial institutions generally provide the financial requirements for open market housing.

Economic housing also involves returns on investments, but in the range of 6% to 8%. The units may be leased or sold to occupants, usually in the middle and moderate income groups, with monthly installments over a long period of time (15 - 25 years). This income group ranges from $1000 to $5000 and includes about 49% of the urban population. Governmental financial institutions, like the Social Security System, provide funding here.

- In social housing, no returns on investments are involved. The income generated is sufficient only for the maintenance and administration of a housing project. The units are not sold but are merely leased to the occupants by the government. Incomes here are below $1000 annually and include about 48% of the urban population. Squatting and informal financing mechanisms dominate in this group.

From a broader perspective, the nature of housing investments is such that they require the availability of large amounts of long-term investible funds, for which other economic sectors compete in both source and use. These funds are both expensive and inadequate. Against this reality, those who opt to invest substantial amounts in housing have to reckon with the predominately low purchasing power of the market for housing as well as the current prohibitive costs of land and construction.

These considerations determine in large measure the respective attitudes of private and government sectors toward housing investments and hence their levels and forms of participation in the total housing effort. Because private investments are profit oriented, they compete with other types of investment opportunities and thus require higher rates of return and greater liquidity. In contrast, the government has undertaken investments in housing primarily to fill part of the gap unserved by the private sector, as well as to fulfill its social objectives.

GOVERNMENT FINANCIAL INSTITUTIONS

The government financial institutions have been steadily increasing their proportion of housing activity and in 1977 financed 18,000 new units, which was 24% of net additions to the urban housing stock.

Government Service Insurance System (GSIS). The housing policy of GSIS is to make its real estate loans and investment operations more responsive to the growing needs of its members (government employees), by maximizing the number of units financed and constructed, and to produce these units at the lowest possible cost. These policy objectives are designed to make it easier for policy holders to own a house and a lot, while at the same time protecting the primary function of GSIS of providing social insurance. Future investments in support of housing will be oriented toward purchase of securities issued by other housing entities rather than direct investments. Below are the various GSIS financing mechanisms for housing:

- Residential Loans. These are direct housing loans granted to GSIS members to enable them to finance construction or acquisition of homes. The loans are secured by the houses and lots, which are mortgaged to GSIS. Interest rates, all compounded monthly, are 6% per annum for loans amounting to approximately the first $4000; 9% per annum for loans of $4000 up to approximately $9500; and 12% per annum for loans over $9500. Repayment terms are 15, 20, and 25 years, assigned according to the amount of loan obtained as well as paying capacity. Developers are given three years or a time span co-terminus with the development period. Individual residential loans are currently not offered, pending government housing policy reviews.
- Individual Sales in Mass Housing Projects. These are sales on installment of about 20,000 housing units in six housing projects owned and administered by GSIS and in 50 projects which GSIS has financially assisted through construction and development loans.
- Interim Loans. These loans are primarily geared toward mass housing projects and are granted to

developers to enable them to develop, construct, and sell housing projects. This program started in 1971. Repayments for these interim loans are effected through deductions from the proceeds of sales paid by the GSIS to developers.

Social Security System (SSS). The goal of the SSS housing program is the promotion of homeownership among its members (who are privately employed) through direct housing loans for covered employees, of whom 88% are considered low income. Housing loans are granted by the SSS for the following purposes:

- For construction of a new house, with or without payment of lot balance;
- For assumption of an SSS mortgage obligation;
- For the acquisition of a house and lot from a developers' group with an SSS approved group housing project on a turn-key basis.

Housing loans are secured. Collateral consists of a house and lot that are the subject of the loan, as well as additional real estate which is registered in the name of the applicant. The loanable amount shall depend on the lower of the following factors: the amount applied for, the paying capacity of the borrower, the value of the collateral, the actual financial assistance needed as determined by the SSS, and the maximum loan ceiling of about $6800. Under the group housing program, which is undertaken on a turn-key basis, the owner-developer develops his own land and constructs housing units using either personal funds or loans from financial institutions other than SSS. The SSS commits to extend housing loans to individuals whose applications are pre-processed by the owner-developer. These loans are not granted until the unit is ready for occupancy. This group housing program is currently being phased out.

Development Bank of the Philippines (DBP). Although the DBP was created primarily to provide credit facilities for the rehabilitation, development and expansion of agriculture and industry, it has extended its operations to include residential loans. Residential loan approvals have averaged 3,800 units per year. The DBP housing program includes new low-cost construction, reconstruction after disasters, repairs and expansions. For each of these DBP specifies a loan ceiling amount based on its charter limits, taking into consideration affordability levels and the cost of building materials. Loans are generally on commercial terms, but employees receive lower rates. The DBP also extends assistance to private financial institutions involved in housing through its rediscounting facilities.

National Housing Authority (NHA). The NHA was established in 1975 through Presidential Decree No. 757. All existing government housing and resettlement agencies, task forces, and ad hoc committees were abolished under the Decree and integrated into NHA together with their projects, properties, obligations, and balance of appropriations. The NHA has the following powers:

- To approve subdivision and other housing plans;
- To engage in housing joint ventures;
- To provide interim funding for developers; and
- To extend end-use financing for homebuyers.

NHA views the housing sector priorities in terms of the need to provide new housing units, to upgrade the existing stock and improve physical environment by providing access to basic services in blighted areas, and to resettle families whose shelter conditions cannot be upgraded economically. In operationalizing these policies, NHA had defined its primary target as the low income and moderate income groups. NHA's program includes the following:

- Construction of new units is oriented toward housing units of mixed types, that accommodates low and moderate income families in a housing project. In this regard, joint ventures with the private sector and local governments will be undertaken. This arrangement involves the extension by the NHA of technical assistance and of interim and/or long term financing to enable the joint venture partners to lease out or to sell housing units or serviced lots at acceptable and affordable rates to qualified beneficiaries.
- Upgrading sites and services involves the redevelopment of blighted urban communities by

introducing and improving existing physical facilities alongside the implementation of a socio-economic program aimed at providing community services and employment opportunities. The rationale behind this is the maximization of the use of the existing housing stock in order to serve the greatest number of people at the least cost.

- Land assembly, relocation and resettlement pertains to the transfer of families living in unsafe areas and in those needed for public infrastructure developments. Here resettlement areas are provided with core dwelling units complemented by necessary physical infrastructures.

The largest NHA project now underway is the Tondo Foreshore/ Dagat-Dagatan slum upgrading effort, which is being carried out in partnership with the World Bank.

<u>Current Constraints for Government Financial Institutions.</u> Capabilities to meet present need requirements are seriously limited by the following factors:

- There is the problem of a continuing availability of funds for housing, considering that this is just one sector among the many concerns of the government.
- Provident funds belonging to government and private workers, on which the government mainly relies for

its housing investments, cannot by their very nature directly finance the needs of the lowest income group. Investments in low-cost social housing involve heavy government subsidy, and as such, are almost not expected to be recovered at all.

- Government housing agencies have not been organized to form an integrated unit, thus the tendency towards duplication of functions and competition for financial resources. Although the NHA has been created for the purpose of integrating these efforts, its inadequate sources of funds and present liquidity problems constitute a real constraint on its financial ability to meet investment requirements for housing.

PRIVATE FINANCIAL INSTITUTIONS

The private sector participates in the total housing effort mainly through its network of financial institutions which either extend direct loans to individual buyers or participate jointly with private housing or estate developers. In addition, a number of private companies have housing credit programs for their employees. Among the private financial institutions participating in housing investments, commercial banks, insurance companies, savings and mortgage banks, savings and loan associations and building and loan associations are the most active. There are 139 savings and loans in the Philippines, but their resources only account for a 0.7% share in the financial markets.

A few commercial banks grant housing loans to employees, individual borrowers, and at times for the credit requirements of private firms for the construction of housing units for their employees. These banks may also participate jointly with private housing or real estate developers.

Banco Filipino and its affiliate, Banco Filipino Homes, dominate the savings and mortgage banks with respect to involvement in home financing. Notable among their projects are those in Caloocan, Paranaque and Las Pinas embracing about 1,055 dwelling units worth about $4.6 million or about $4,600 per house. Loan to market value ratios for conventional uninsured loans are about 53%. Interest rates are about 17-18% and terms can range up to 20 years. 75% of Banco Filipino's $250 million in assets are in mortgages.

Since the commercial banking business is short term in nature, the major source of financing the credit requirements of individuals, contractors and real estate developers is left to the long-term lending institutions. While interest rates, collateral, and repayment periods vary from bank to bank, these are, however, kept within the framework of pertinent statutory requirements and existing regulations of the Central Bank and other regulatory bodies.

Real estate mortgage loans are normally extended for the construction, acquisition, expansion, or improvement of rural and urban properties or refinancing of similar loans. A first mortgage of real estate properties covered by torrens title is required. In the valuation of these properties for purposes of determining the amount of loan to be granted, a loan value not exceeding 70% of the appraised value, or 60% for those located in the provinces, is prescribed.

In the construction of a residential house on a property owned by the borrower, for instance, the collateral that may be offered to secure the loan may be the lot on which the building is intended to be built without regard to the proposed building. If the value of the property offered as collateral is insufficient to cover the loan applied for, other securities acceptable to the bank, such as savings deposits or time deposit accounts, may be required. The loan value that may be assigned for savings deposit accounts is the cleared outstanding balance of the account less the interest on the loan due up to its maturity. For government bonds and securities, the maximum loan value is approximately 56% (70% of appraised value which is 80% of market value), for DBP Progress Bonds, and 85% for public works and economic development bonds with CB support. As a general rule, the amount of loan that may be granted by long-term lending institutions shall be based primarily on the appraised value of the existing collateral offered, while the value of the proposed construction is not considered. Releases for loan proceeds may either be in a lump sum or as may be requested by the borrower depending on his needs, unlike in the procedure observed by GSIS and SSS where loan proceeds are released on a staggered basis depending upon the completion of the projects under construction.

<u>Current Constraints for Private Financial Institutions.</u> Several factors limiting housing investments are as follows:

- The low income levels of households and resulting inability to meet repayments (i.e. delinquencies and foreclosures).
- The inability of the institutions to mobilize enough voluntary savings through the use of their traditional low yielding deposit instruments.
- The reluctance of the institutions to transform their available short term depository savings into longer term mortgage loans owing to the possible effects on cash flows as well as the absence of any adequate mechanism to ensure liquidity.
- The absence of rediscounting facilities with the Central Bank for home mortgage loans of commercial banks and other financial institutions, except for housing mortgage papers by thrift institutions which are rediscountable only up to 40% of the installments and payments

due to it within the year.

- The fact that despite having been repeatedly proposed in the past, mortgages originated by private institutions are not yet being purchased by the government financial institutions such as SSS, GSIS and DBP.
- The consequently smaller segment of the housing market that can be served as a result of the high effective interest costs, relatively short repayment periods and low loan to value ratios.

OTHER ENTITIES AND MECHANISMS

Home Financing Commission (HFC). This entity was created in 1950 and has the following functions:

- To operate a mortgage insurance program;
- To encourage and/or initiate the organization or incorporation of building and loan associations; and
- To promote home building and land ownership.

Provided the interest rate on an individual housing loan does not exceed 10%, HFC guarantees bear the following features:

- Lender is insured against all risk, by having capital and interest fully secured.
- Interest earnings are exempted from all taxes.

- Exemption from the Central Bank and Insurance Commission's ceiling on credit risks.

Several limitations in the HFC charter have proven to be a constraint to the continuity of meeting its goal. Mortgages eligible for insurance coverage cannot exceed about $4,000, including house and lot, and interest rates cannot exceed 10% per annum.

Furthermore, HFC has a total ceiling coverage for all loans of $68 million, representing total aggregate amount of outstanding principal obligation of mortgages incurred at any time. To date, HFC has nearly reached the ceiling.

National Housing Corporation (NHC). NHC was organized in 1968 with the basic concept of undertaking and conducting research and technical studies for construction of houses with the utilization of new and/or native materials, economics in materials, and new techniques of production, distribution, assembly and construction, as well as applying advanced housing and building technology.

National Home Mortgage Finance Corporation (NHMFC). Established recently pursuant to Presidential Decree No. 1267, the NHMFC has the following important powers and functions:

- To develop and provide for a secondary market for house mortgages granted by public and/or private housing finance institutions;

- To purchase, acquire, sell, discount, refinance, or otherwise deal in home mortgages or participation therein under such terms and conditions as its Board may prescribe;
- To borrow funds from domestic or foreign private or public financial institutions as may from time to time be required for its operation; and
- To issue bonds, promissory notes, debentures and other debt instruments in local or foreign currency.

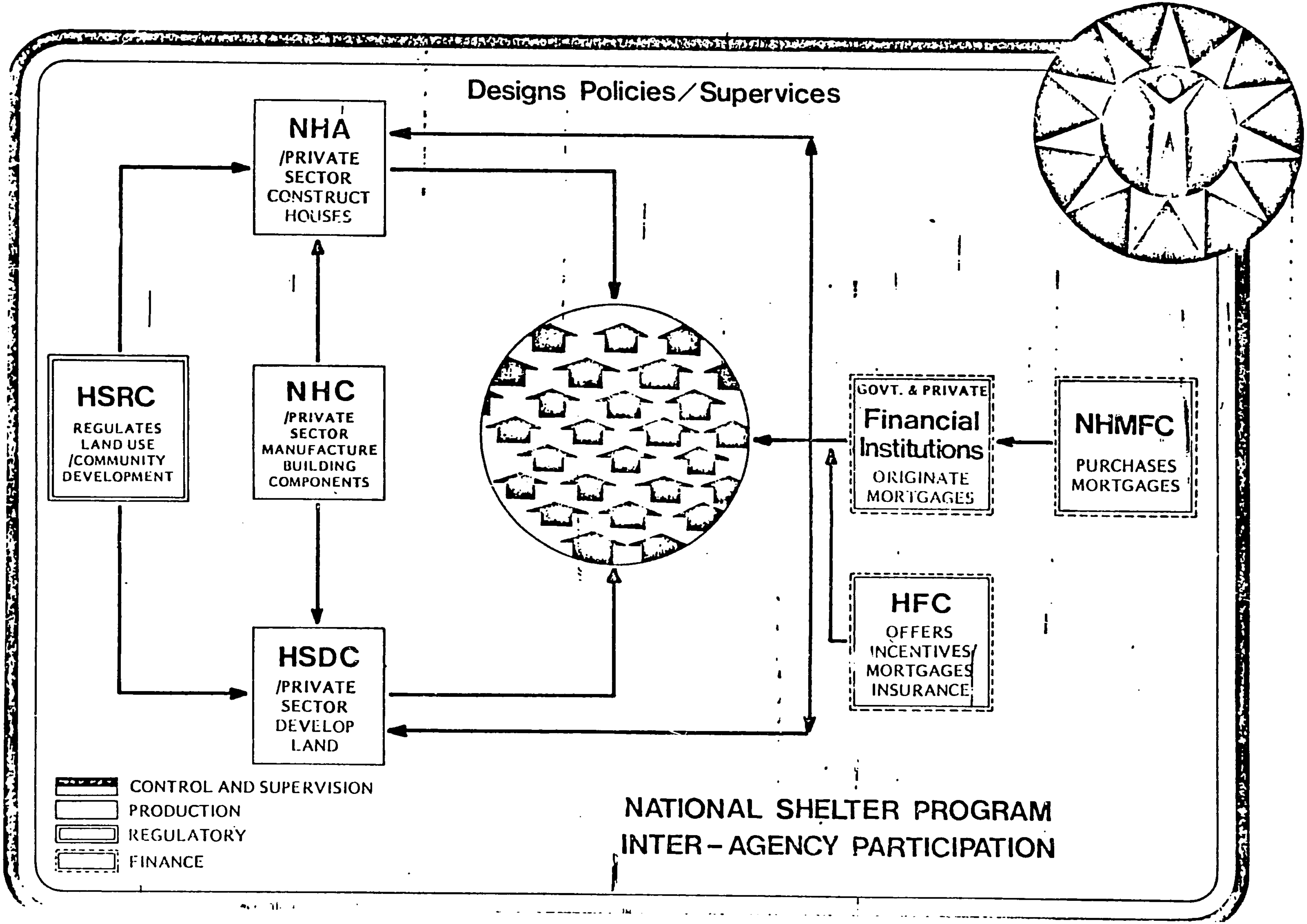
The creation of the secondary mortgage market system intends to solve the problem of insufficient funding for housing. While the private financial institutions do not totally avoid the supportive role they play in the housing program in terms of interim construction finance, their participation cannot be fully extended over the long term to end-beneficiaries due to the relatively short-term nature of their funds. Therefore, NHMFC intends to act as a super-bank for housing, by centralizing the collection and distribution system for funds emanating from the government, the private lenders, and the savers. Its objective is to develop long-term, low-cost funds to support the national shelter program.

In order to put NHMFC into operation, it is necessary to obtain equity contributions from such sources as the government, a discounting line from the Central Bank, the flotation of bonds and debentures, short and medium term placements, money savings, and grants from foreign governments and agencies.

Very recently, NHMFC assumed the administration of the new Home Development Mutual Fund (HDMF) to acquire savings by voluntary monthly deductions of 3% from base salaries and counterpart contributions by the employer or the national government. A member of HDMF shall be eligible to apply for a housing loan from the fund not to exceed about $11,000.

Informal Mechanisms. The most common housing option for the poor is squatting, whereby a family will start building a house through scavenging and savings, and then gradually keep improving the dwelling. Even though this usually occurs on land owned by another person or the government, squatting is an institutionalized and accepted way of acquiring land and home due to the court system's quite strong protections against evictions. No institutional financial investment is likely to be found in squatter colonies.

For more moderate income families, it is not unusual to need as many as eight different private and public sources of financing to buy a home. Usually many of these are short term personal notes or credit lines which are secured by personal property and just rolled over until enough personal savings or loans from relatives or friends can be accumulated to pay them off.



NATIONAL SHELTER PROGRAM
INTER-AGENCY PARTICIPATION

MALAYSIA

GENERAL INTRODUCTION

Malaysia's housing finance system must be viewed in the context of one of the healthiest economies of the developing nations of Asia. But private savings and investment are declining as consumption soars beyond disposable income gains. Expansion of oil production has been the economic generator and has resulted in increased government expenditures and investments for housing as well as other areas.

There is still a serious housing shortage in the country, with Kuala Lumpur alone having a squatter population of 250,000. The shortage is felt not only by low income people but increasingly also by the lower middle to middle income categories who find that the scarcity of houses and spiralling prices are making it difficult for them to own a house.

Central government policies under the Third Malaysian Plan have been oriented to providing funds to the various State governments for development of low cost housing, as well as policing the activities of private developers. Quality and quantity of housing provided through the State governments, however, varies greatly due to differences in competence, political will and organizational resources. Other government actions include directives to private financial institutions to provide minimum percentages of new loans to residential mortgage borrowers, a direct subsidized loan program for government employees through the Treasury, and a new subsidized loan program for lower income families (handled through the Malaysian Building Society).

Private developers and lenders are oriented primarily toward medium cost and luxury housing, where good profits can be made due to high demand.

Housing credit institutions are rapidly expanding their provision of residential mortgage credit. Net housing loans provided by the commercial banks, finance companies, two building societies, and the National Treasury amounted to nearly $3 billion (all figures used herein are U.S. dollars) at the end of 1978, with a growth rate of 35% during the year. Of the credit extended, commercial banks account for about 42%, finance companies for 12%, the two quasi-public building societies (Malaysian Building Society and the Borneo Housing Mortgage Finance) for 20%, and the Treasury for 25%. Urban credit cooperative societies also play a moderate role in housing credit and are just beginning to enter into the direct housing development area.

PRIVATE FINANCIAL INSTITUTIONS

The private sector is a competitive well-developed, and major contributor to housing credit in Malaysia. Due to the low unemployment rate (about 6%) and large working class population, private institutions are able to serve the majority of the citizens at unsubsidized market rates and terms.

Bank Negara Malaysia, the principal regulator of financial institutions and the Central Bank, and the Ministry of Finance frequently issue directives to commercial banks and finance companies, guiding them on various aspects of their operations. For commercial banks, the maximum allowable mortgage interest rate is set at 9% and at least 10% of all new lending must be for individual housing loans. For finance companies, the maximum rate is also 9% and at least 25% of all new lending must be for individual housing loans. Commercial banks and finance companies generally offer 10 to 12 year terms and ratios of 60% to 80% for loan to appraised value or new construction cost. A number of lenders offer higher (about 10%) loan to value ratios for native Malays, or bumiputra. Fire and calamity insurance is always required and life insurance is normally required. Although no government guarantees or insurance programs are available, large private companies very often provide guarantees which enable lenders to offer higher loan to value ratios (up to 100%) to their employees.

Malaysia Building Society (MBS). Formed by the British and modelled after British building societies, the Malaysia Building Society is currently the largest single provider of housing credit in the country. It is 40% owned by the government and, by law, devotes all of its considerable resources to housing credit. Its Board of Directors is appointed by the government and several Directors are government Ministers. MBS operates 10 branch offices but its net consumer deposits only comprise a small portion of MBS resources. The Employees Provident Fund (EPF) provides about 75% of MBS resources through long term (20 year) loans at 7-1/2% to 8-1/2% interest. Because of this, MBS offers somewhat higher loan to value ratios as well as terms up to 20 years for loans under $4500. The EPF is the government's social security system and covers both government and private workers. Employees and employers each pay in about 7% of a worker's wage. Thus, the EPF is probably the largest single ultimate source of housing capital. MBS also operates the government's special $190 million subsidized 5.5% interest rate progrsm for lower income people, which is described later in this paper. While MBS operates in the western part of Malaysia, its much smaller sister institution, the Borneo Housing Mortgage Finance, operates in the eastern area.

GOVERNMENT HOUSING EFFORTS

Ministry of Housing and Local Government. This Ministry concentrates its housing-related activities in the following areas:

- Loans are provided to the various State governments for the purpose of developing housing projects, both sale and rental. The rate is 4%, term is 25 years and about $200 million has been distributed in the past three years. The States generally add 1.5% and provide loans to developers and individuals at 5.5%. The Ministry of Housing provides substantial technical services, such as architecture and engineering, to virtually all the States. A major constraint to greater production is a shortage of trained technical and professional staff.

- A $4.5 million program provides direct loans to individuals at 5.5% to assist certain families displaced by road construction etc., and to support new villages in the rural areas. Technical assistance is also provided to assist people in building new homes. Maximum loan is about $3500 and maximum income is about $175 per month.
- The Ministry is currently studying the feasibility of a national sites and services program for upgrading squatters' areas and slums. To date, various States have done small-scale infrastructure upgrading projects.

Special Programs and Activities. In 1976, the government established a new low cost housing scheme, valued at $190 million, for the financing of low cost housing for those earning less than about $225 per month. The Malaysian Building Society was appointed to administer the program and was loaned funds at 4% by the EPF (one third of the total) and the Central Bank (two thirds of the total). The mortgage loans, in turn, are made at 5.5%. Borrowers can obtain a 10% down payment from their account at the EPF. This program has been very popular and has been constrained only by the limited supply of suitable low cost housing. For government employees, housing loans are available directly from the Treasury at a 4% interest rate. To finance this effort, the Treasury borrows from commercial banks at slightly below prime rate (about 7%), and then subsidizes the difference.

The government has also initiated several other policies which have a significant effect on housing credit. As previously mentioned, the maximum housing loan rate is set at 9% and minimum percentages of housing investments are proscribed for commercial banks and finance companies. In addition, 30% of housing units in private developments must be reserved for native Malays. Moreover, 30% to 50% of private developments must be constructed as low cost units under about $9,000. Developers often give discounts on these units in addition to building smaller units. Financing is then available through the special 5.5% program mentioned above. Both of the above developer requirements are enforced through the government's rather extensive building permit and site approval process.

<u>Urban Development Authority (UDA).</u> The UDA was established in 1971 by the national government with the following functions:

- To promote and carry out projects in urban development areas i) development, redevelopment, settlement, resettlement and public housing; and ii) improvement in environment, services, amenities, traffic circulation, vehicle parking, recreational and community facilities and other public improvements for the promotion of national unity, health, safety, convenience and welfare;
- To promote and carry out projects in urban development areas with a view to achieve the distribution of opportunities among the various races in the fields of commerce and industries, housing and other activities;
- To translate into action-programs the government policy to restructure society through urban development.

By the end of 1977, UDA had become a major force in national housing---both in volume of construction and in sociological impact.

The Authority has been particularly active in building new communities, as these offer the greatest scope for pursuing the tasks which the UDA has been assigned under the government's New Economic Policy. The chief of these tasks is to bring about a more representative racial balance in the pattern of population and property ownership in Malaysia's urban centers.

In its first six years, UDA initiated 37 housing projects of varying types and sizes. These are spread throughout the Federal Capital Territory (metro Kuala Lumpur) and 10 of Malaysia's 13 States. These projects involve an aggregate of 3720 acres and approval for over 35,000 dwelling units. These range from core houses (consisting of four walls and a roof) for resettling squatters on a self-help basis, to elegant bungalows. Of the 5,486 houses delivered through the end of 1977, over 50% have gone to bumiputras, the native Malays.

UDA first entered the housing field by purchasing a 46% interest in a private developer. With experience built up from several of these joint venture partnerships, UDA has built an in-house capability for handling all aspects of housing development --- from feasibility studies and financial projections, to technical planning and project management. UDA now extends many forms of assistance to bumiputras -- not only to bumiputra homebuyers, but also through technical and financial assistance to bumiputra developers and contractors.

In 1975, UDA entered into a new kind of partnership that has opened the way for future undertakings in housing and other forms of property development on an unprecedented scale. Together with the Trengganu State Economic Development Corporation (SEDC), it set up a partnership arrangement. The SEDC makes land available to the 50-50 joint venture company on the basis of deferred payment of land premiums. UDA contributes financing and know-how, and after the project is on stream, the first profits go towards paying the land premium. Thereafter, profits are equally shared. The advantage of this approach is that a greater number of projects can be initiated with a minimum amount of capital. More and more States are undertaking this scheme and developing commercial as well as housing premises. UDA obtains substantial capital through private financial institution borrowings as well as grants from the national government.

Two of UDA's major projects are the following:

- The Sabak South Squatter Re-housing and Rehabilitation Pilot Project is a 36 acre site on the outskirts of Kuala Lumpur, where a new expressway is being constructed. The project embodies a sites and services concept where the Authority prepares a site for housing development by building roads and drains, creating building platforms, and bringing in electricity, water, and sewerage. The settlers then build their own homes according to approval plans and phasing the construction to suit their needs and resources. In addition, UDA provides 400 square foot core houses, consisting of one bedroom, a living area, a bathroom and a kitchen. Plans are also available for phased expansion of the core house. A pilot project of 316 core houses was begun in 1977. The total construction of each core house, including site preparation and infrastructure is about $2750. Financing is provided with a small downpayment and long repayment term. To permit prices and payment terms to be regulated to the best advantage of the squatters, the pilot project incorporates a cross-subsidy approach. In addition to the core houses, the scheme includes 93 free-standing house lots of 2,400 square feet each, 10 shop lots of similar area, and 77 industrial sites of 2,800 square feet. These will be sold at a profit and part of the profit will be used to subsidize the housing component. The Sabak South experiment has the support of the United Nations Development Program and the World Bank (IBRD). The latter assisted in the initial programming and is monitoring the results from the planning, financial, and social angles. The Bank is providing loans amounting to 45% of the total project cost of about $1 million and the balance comes from the national government.

- Subong Jaya new town occupies 1,440 acres in Selangor's Klang Valley, and is the largest of UDA's projects and one of the most comprehensive new communities under private development in Malaysia. Approved for 9,500 housing units, Subong Jaya also incorporates a 85 acre town center and a 100 acre light industrial area. When fully developed, it will be a largely self-sufficient socioeconomic unit, providing substantial employment for its 50,000 inhabitants and catering to most of their shopping and recreational needs. Launched in 1974, Subong Jaya is an established success with over 1,000 units occupied by the end of 1977. Special features include commuter rail linkage to major cities, modern highways, extensive planning for land use as well as immediate utility hookups.

SPECIAL ISSUES

Below are several issues of current interest regarding housing finance in Malaysia:

- The government approval process for private housing developments is fairly lengthy and cumbersome with numerous bureaus and layers through which to go. Land carrying costs of developers thus increases, and affects ultimate house prices. Government standards for infrastructure development, including width of roads, parkland, etc., are quite high. To support low cost housing, lower standards may be appropriate in some instances.

- Loan repayment terms are quite short. Rapidly rising housing costs are sure to stimulate discussion on lengthening terms perhaps up to 25 or 30 years as in the U.S., in order to reduce monthly payments. On the other hand, private financial institutions prefer shorter terms for liquidity purposes and no secondary market exists for institutions to sell their loans in portfolio. Thus, development of a private and/or public secondary market mechanism may be a prerequisite to any lengthening of terms.
- The government owns a significant percentage of the land in Malaysia. As the government and private sectors look for increasing cooperation and partnerships, one new idea involves the government providing land to developers either on a low cost lease basis or free where low cost housing is constructed. More of this type of activity is likely to be pursued.
- With scarce land for development, it is becoming increasingly necessary to build high-rise flats, particularly for low income people. Ownership of a housing unit, as opposed to rental, is a preferable form of tenure, but condominium law is not well-advanced. Individuals find it difficult to obtain clear title to an individual condominium in a flat,

and thus financial institutions have difficulty obtaining mortgage liens as security for the loan. Assignments are the common practice now. This issue will have to be resolved before high density ownership housing will be realized on a significant and needed scale.

SRI LANKA

GENERAL INTRODUCTION

Housing finance in Sri Lanka can best be described as underdeveloped and inadequate. While the country has a large number of commercial banks and other specialized financial institutions a number of problems have retarded the growth of the sector. Consequently, the government in recent years has assumed greater responsibility for providing shelter for a larger number of the country's citizens. With a population of 14 million people and a land area of 25,000 square miles the land- to-people ratio is quite favorable. While the urban population is increasing at a more rapid pace than is the rural population, the rush to the urban centers is not overwhelming. The explanation for this is the country's declining birth and fertility rate, and the availability of employment opportunities in the rural areas.

It has recently been estimated[1/] that 40 percent of Sri Lanka's present housing stock can be considered permanent (constructed out of stone, brick, cement or wood), and about 55 percent semi-permanent (roofs and walls of mud and thatch), and the remainder of temporary make-shift construction.

1/ Kingsley, G. Thomas, "A Review of Sri Lanka's Housing Problems and Policies," August, 1978.

Average household size in Sri Lanka averages 4.8 in the rural areas and 5.2 in the Colombo region. Compared to much of Asia, this ratio is not high but compared to western standards, considerable overcrowding does exist. To relieve the overcrowding and replace substandard housing units, it is estimated that Sri Lanka has a present housing need of 1.2 million units,[2/] 300,000 in urban areas alone. To meet this backlog and to provide for projected growth to the year 2001, Sri Lanka will need to construct a total of 140,000 of which is needed each year in urban areas alone. To deal with this shortage, the President recently announced a housing target of 100,000 units by 1982. To implement the plan, the government recently announced formation of the National Housing Development Authority within the Department of National Housing.

The housing and housing finance programs of the country can be divided between those initiated by the government and those sponsored by the financial institutions. They are as follows.

GOVERNMENT HOUSING EFFORTS

Ministry of Local Government Housing and Construction. Within this ministry, a Department of National Housing was established under the National Housing Act of 1954 to implement the country's housing policies. The Act established the

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2/ Ibid., Kingsley.

National Housing Fund for the promotion of housing and building development. In addition, the Department has responsibility for implementing the country's regulatory laws relating to tenants' protection in the areas of rent ceilings and other regulatory controls.

Specific programs of the Department are as follows:

- Financial assistance for construction and repair of houses and for the purchase of houses and land. To qualified individuals loans are available for the construction and repair of homes or the purchase of housing and land. Ranging in size from Rs. 4,000 to Rs. 50,000 the interest rate is 6 percent to 9 percent with an amortization period of 15 years. The Department also encourages the upgrading of rural housing, by providing a Rs. 3,000 interest free loan.

- Acquisition of land. Land is obtained either by acquisition of private land or by vesting State land for carrying out the housing objection of the Department. Individuals can form a housing society and obtain the land for the purchase of housing.

- Direct Construction Program. The Department constructs houses either directly or through an aided self-help program. A model village program has also been established to assist in the upgrading of rural slums.

To provide shelter for public servants located in outlying districts the Department has undertaken a program of direct construction for the various Government agencies.

- To help strengthen the private sector the Department provides a number of financial and tax incentives to private housing developers. Included are such items as exemption from income tax investment relief, and special tax incentives to encourage employers to privide housing for employees.

In addition to the above programs, the Department of National Housing has certain regulatory functions. Regulations include certain building standards as well as tenant protection and other tenant-landlord relations.

As indicated above, the President of Sri Lanka recently announced a 100,000 unit five-year housing construction program. The program will consist of 50,000 aided self-help houses, 36,000 direct construction units, and 14,000 loans to individuals for housing construction.

Since its inception in 1954, the Department of National Housing and its National Housing Fund has received its resources directly from the Treasury and the sale of debentures to the public. The issues, however, have recently been suspended. Treasury loans ranging in size from Rs. 15 million to Rs. 40 million have averaged about Rs. 2 million each year. The

National Housing Fund has invested Rs. 98 million on the construction of 2,560 houses in its rent-purchase program and 2,640 flats for rent during the past 20 years. The balance of its funds have gone to finance building societies and individuals for the construction of housing. Between 1960 and 1970 total loan amount was Rs. 190 million or Rs. 19 million per year. Loans were granted at rates ranging from 7 percent to 11 percent repayable over a period of 10- to 20-years.

Budgetary allocations to other department's responsible for construction of housing for village expansion, land development, slum clearance, housing for government employees amounted to Rs. 35 million in 1972. Public corporations investing in housing for their employees amounted to Rs. 2 million, Rs. 3 million per annum in recent years. Grants to local authorities for slum clearance and urban development averaged about Rs. 2 million per year.

PRIVATE SECTOR INSTITUTIONS AND CREDIT

Private sector investments in residential construction was estimated by the Central Bank of Ceylon at Rs. 677 million in 1972. While recent statistics are not available on the source of finance for private investment in residential housing, the Central Bank reported the following statistics for 1966/67.

Sources of Funds for Residential Construction (thousands of Rs.)

	Own Funds	Sale of Assets	Bank Loans	Loans from Cities	Other	Total
Urban	42,104	4,911	14,477	2,449	1,542	65,483
Rural	165,103	8,518	44,124	7,406	24,844	249,995
Percentage	65.7	4.3	18.6	3.7	8.3	100

The table indicates of the Rs. 315 million private residential investment, 23 percent was financed by banks and other sources of credit, 69 percent was financed from the individuals own resources and sale of assets and 8 percent from other sources. While the magnitudes are larger, the percentage distribution is estimated to remain about the same. While information is not available on the volume of private credit that has gone to support low cost housing it is assumed that the credit available for private housing flowed primarily into middle and upper income groups considered to be more credit-worthy with easier access to institutional lending.

While discussed above the National Housing Fund administered by the Department of National Housing is the largest supplier of credit for private housing in Sri Lanka. The finance available to individual home builders and housing societies was reported by the Central Bank of Ceylon to be:

Rs. Million

1968	1969	1970	1971	1972	1973
14.3	11.6	15.0	12.3	12.6	12.4

SOURCE: Central Bank of Ceylon, Annual Report, 1973.

In addition, Sri Lanka has a number of bank and non-bank financial institutions that provide credit for housing.

National Savings Bank

Since its inception in 1972, the primary function of the State-owned National Savings Bank has been the promotion of savings through a network of 25 branches, 333 Post Offices, and 2,575 sub-Post Offices. According to the Bank's charter, a minimum of 65 percent of the savings are to be invested in government securities and the balance invested in a combination of housing loans, agricultural loans, and other development loans. In practice, however, approximately 95 percent of the banks savings are invested with the government and the balance in the other loan categories.

In recent years, total housing loans have averaged Rs. 15 million per year. For the purchase of land, the interest rate is 10 percent and the amortization period ten years. For the purchase or construction of a house, the interest rate is 13 percent for 20 years. The Bank will lend up to Rs. 60,000 for the purchase of land, Rs. 120,000 for the purchase of a house and Rs. 180,000 for the construction of a house. The loan-to-value ratio is 75 percent and monthly payments can equal up to one-third of gross monthly income.

To mobilize savings from the public, the Bank has a number of specialized savings plans. Included are such schemes as (a) ordinary savings accounts which consist of gift token certificates, and a save-as-you-earn plan with an interest rate of 8.4 percent as well as (b) fixed deposits yielding an interest rate ranging from 12 percent to 18 percent per annum, and savings certificates at 7.7 percent per year.

State Mortgage Bank

The State Mortgage Bank was chartered in 1931 by the Government to provide credit for the purchase of land, the construction, purchase and repair of housing, and other development purposes. The Bank receives its resources from the sale of bonds and grants from the Government. During the past year the Bank completed 508 loans totaling Rs. 11.5 million. For development purposes the maximum loan is Rs. 120,000 per applicant and for housing the maximum amount is Rs. 180,000. Loans must be secured by a primary mortgage with a loan-to-value ratio of 75 percent. Interest rates range from 10 percent to 12.5 percent.

Commercial Banks

Sri Lanka has two State-owned commercial banks as well as a number of branches of foreign commercial banks. The Bank of Ceylon while primarily concerned with large commercial projects does make short-term housing loans for its employees. The Peoples Bank operating in conjunction with cooperative societies in the rural areas of the country are a primary source of agriculture credit. However, in 1973, the Bank provided Rs. 5.8 million in long-term credit for the purpose of housing.

Other Financial Institutions

There are a number of financial institutions providing housing related credit to special categories of borrowers generally in small amounts, for short periods of time or under emergency conditions. Included are such institutions as the Public Servants Mutual Provident Association, the Government Officers' Benefit Association, Finance Companies and Building Securities. The latter are not building societies in the western tradition, but rather, receive most of their funds through the Government's National Housing Fund.

MAJOR PROBLEMS

The finance currently available for housing from Government Bank sources and non-bank lending institutions was estimated at Rs. 162 million in 1974. The prospect of mobilizing additional capital within the present framework of housing finance is not very promising. Institutional arrangements for mobilizing the savings of the community in a systematic attempt to provide an increasing volume of finance for housing have yet to be developed.

INDIA

GENERAL INTRODUCTION

At present, the total population of India is estimated to be 625 million with 21 percent or 130 million living in the urban centers. By the year 2000, the urban population is expected to reach 300 million. Compared to an urban population growth of 5.5 percent for the world as a whole, the present Indian growth rate of 3.3 percent is relatively low.

The need for shelter, however, remains large in India. On the basis of the 1971 Census, it was estimated by the National Building Organization, on the eve of the country's Fifth Five-Year Plan, that the housing shortage was 15.6 million. By early 1979, the shortage is estimated to increase to 19.7 million units, 14.8 million units in rural areas and 4.9 million units in urban areas.

According to the constitution, housing is considered to be a "State subject," and as such, is under the authority of the Housing Division of the Ministry of Works and Housing. Working in conjunction with the State governments and State Housing Boards, the goal of the Department has been to (a) preserve and improve the existing stock of housing, (b) provide house-sites to landless laborers, (c) support other agencies such as the Housing and Urban Development Corporation to provide housing to the low- and middle-income groups, (d) employ public funds for the construction of housing for the economically weaker section of society, and to (e) intensify research and development of inexpensive building materials. The draft Five-Year Plan (1978-1983) envisages an expenditure of Rx. 15.4 billion for the various social housing programs. This includes Rs. 5 billion for rural housing.

DOMINANT HOUSING-RELATED INSTITUTIONS

Life Insurance Corporation

The government-owned Life Insurance Corporation (LIC) has become one of the largest sources of housing finance in India. Statutorily, the company is required to invest 50 percent of its funds in the securities of the Central and State governments. Another 25 percent is required to be invested in socially oriented schemes, such as, housing, electrification, water supply and industrial estates, and a further 10 percent of the funds are to be used for private sector investments. To date, LIC has invested 15 percent of its portfolio of Rs. 7,285 billion among the various institutions financing housing in the country.

Specifically, the largest share of LIC's investment in housing has been in the form of direct loans to the State governments for financing their various social housing programs sponsored by the Ministry of Works and Housing. Loans have also been made to a number of State Housing Board and to the Housing and Urban Development Corporation for lower and middle income housing.

Individuals can obtain housing loans from LIC under two programs. The first is a loan against the mortgage of the property for 50 percent of value at 10.5 percent interest for 15 years. The second program is designed to assist policyholders to purchase or construct their own house. Under this "Own Your Home Scheme," a policyholder can obtain a loan up to 85 percent of the property value against the mortgage of the property and the collateral of the life insurance policy. The maximum amount of the loan is Rs. 100,000.

Loans are also available to public limited companies for the construction of staff housing and to the staff of LIC at the company's different centers throughout the country.

Interest rates and terms of the various lending programs are:

Loans to	Rate of Interest (per annum)	Repayment period, etc.
State Governments	8%	Up to 25 Years. Principal is repayable by equal annual instalments. Interest payable separately in half-yearly instalments.
Apex Co-operative Housing Finance Societies	8.5%	To be repaid in 20 equal annual instalments. Interest payable separately in half-yearly instalments, with a guarantee of the State Government for payment of interest and repayment of principal. The Society has also to arrange for compulsory insurance cover with LIC on the lives of individual members of primary societies.

Loans to	Rate of Interest (per annum)	Repayment period, etc.
HUDCO	11%	Rebate of 0.5 percent for prompt payment. Repayable in 15 years with a moratorium for first 10 years. Security is first floating charge on its assets.
Co-operative Housing Societies of employees of Public Limited Companies/Public Sector Undertakings	10.5%	Up to 15 Years. Repayment by monthly equated instalments.
Construction of offices, commercial accommodation, hotels, etc.	13%)	Up to 15 Years. Repayment by half-yearly instalments (both principal and interest).
Construction of cinema houses	14%)	

General Insurance Corporation

The General Insurance Corporation (GIC), was formed in May, 1979 following the nationalization of the general insurance companies. The liabilities of the general insurance business are much shorter than those of LIC and as such, a larger percentage of its assets are required to be invested in easily marketable and liquid assets. However, up to 35 percent of GIC's assets can be invested in loans to State Governments housing progress and the programs of the Housing and Urban Development Corporation.

Housing and Urban Development Corporation

The Government of India established the Housing and Urban Development Corporation (HUDCO) in April, 1970. The primary objective of the Corporation is to finance and undertake housing and urban development programs throughout the country, setting up of new satellite towns, and the financing and establishing of building material industries.

HUDCO doesnot grant loans directly to individuals but rather, finances housing and urban development projects sponsored by the State Governments, Housing Boards, Slum Clearance Boards, City Development Authorities and other local bodies.

In 1974, HUDCO began making loans to employers in both the public and private sectors at an interest rate of 11 percent for the construction of housing for their employees earning less than Rs. 600 per month. For this program HUDCO provides 70 percent of total project cost and the employee provides the balance. Since 1975, HUDCO has been lending money to co-operative housing societies as well. Again, HUDCO finances 70 percent of project cost and the members of the society finance the balance.

The primary thrust of HUDCO's activities are toward the lower-and lower-middle income families it does finance housing for middle and upper-income families to help subsidize the loans for lower income housing.

The major sources of funds for HUDCO's programs are borrowing from the market, from the two insurance companies discussed above (LIC and GIC), own resources, and repayment of loans. To-date, HUDCO has built up resources of Rs. 853 million. Of this Rs. 142 million represent paid up capital and reserves, Rs. 330 million has been borrowed from LIC and the balance Rs. 381 million has been raised through the sale of bonds.

HUDCO loans have financed the construction 182,042 housing units, 3,635 non-residential units and for the development of 34,350 plots for a total investment of Rs. 3,350 million. In recent years HUDCO has placed primary emphasis on low cost housing. Out of 185,972 units 81 percent were for low income families and 29 percent for middle and higher income families.

While the responsibility for housing in India falls within the State List, given the magnitude of the problem, both Central and State Governments have provided assistance for housing. Apart from setting up apex housing finance institutions (discussed below), the Central government has from time-to-time introduced housing programs from special categories. These state programs have included:

- subsidized housing schemes for industrial workers and economically weaker sections of the society
- low income group housing schemes
- subsidized housing schemes for plantation workers
- slum clearance and improvement schemes
- environmental improvement of slum areas
- village housing project schemes

- middle income group housing schemes
- rental housing scheme for State Government employees
- land acquisition and development scheme
- provision of house-sites to landless workers in rural areas

State Housing Boards

At the State level, Housing Boards are the most important agency in implementing the Government's housing programs for lower income families. In addition to building low income housing, the Boards in some states have set up building materials facilities. Sources of finance for their activities are HUDCO, public borrowings, and insurance companies.

Co-operative Housing Societies

To encourage individuals in solving their own housing needs the Government encouraged the development of co-operative housing societies. There are two types of societies. Primary societies which include tenant ownership societies, tenant co-partnership societies, house mortgage societies and construction societies. The second major type is the State level Apex co-operative society. These Apex societies play a significant role in providing financial assistance to primary co-operatives in their respective states. At the end of 1975 there were 17 Apex societies and 25,633 primary societies. The most important source of capital was the Life Insurance Corporation amounting to 87.4 percent of total borrowings. As of June, 1975 outstanding loans amounted to Rs. 2,024 million. Loans are amortized over 20 years, with an interest rate of 9 percent.

Housing Development Finance Corporation

In October, 1977 the Minister of Finance inaugurated the Housing Development Finance Corporation (HDFC) whose objective is to provide loans for residential housing to individuals, groups, companies, and co-operative societies in urban and rural areas. HDFC will also finance commercial projects as well as provide loans to builders and contractors. As a private corporation the capital shares will be owned primarily by LIC, GIC and other industrial concerns. HDFC will accept deposits and provide loans up to 20 years at a rate of 2 percent above the average deposit rate.

Commercial Banks

At the present time, commercial bank's involvement in housing finance is mainly by way of their investments in the bonds and debentures of HUDCO, the State Housing Boards, and housing loans to their own employees. At the end of 1975, total investments by commercial banks were Rs. 934 million. Of this, almost 63 percent went to individuals, mostly employees, for the purchase of housing. The second largest amount, 25 percent, went to co-operative societies.

Major Problems

The above survey shows that there are a number of organizations in India providing finance for housing, but with the exception of HUDCO, HDFC and the co-operative societies, none of them specializes in providing finance for the purpose of constructing or purchasing housing. LIC, which provides the largest amount for housing, invests in the field as part of its over-all investment strategy which may or may not give top priority to the importance of housing.

The Central and State Governments have a number of housing programs, but considering the magnitude of the problem they have not contributed significantly to reducing the shortage of housing in India.

HUDCO is a specialized institution and attempts to provide finance for housing in accordance with national housing policy. However, this institution has been most active in the urban areas and is just beginning to operate in rural areas. The major constraint is financial, specifically, a lack of consistent and even flow of funds.

The performance of co-operative housing finance societies is very uneven and have not penetrated the rural areas whatsoever. The performance of HDFC is too new to evaluate and the participation by commercial banks has been limited essentially to employees' housing credit needs.

Given a number of other constraints present in the economy such as the Rent Control Act, Urban Land Act, and scarcity of building materials and skilled workers, it can be concluded if the housing shortages are not to be accentuated, more financial resources will have to flow to housing. Therefore, the institutional framework for the utilization of funds will have to be developed and strengthened.

INDONESIA

GENERAL INTRODUCTION

The housing finance system in Indonesia is heavily dominated by government institutions, primarily due to the large percentage of the population who are poor (median income estimated at about $60 per month; all figures used herein are U.S. dollars). It's been estimated that nearly 50% of the population of Jakarta are squatters. The low incomes coupled with high inflation and thus, interest rates, have made it virutally impossible for the vast majority of citizens to compete in the private marketplace. There is an annual need for 440,000 units of new housing to cope with population growth, but current production rates are about half that figure. To include replacement of substandard units would require an annual production of 1,500,000 units. In addition to expanding the housing supply, Indonesia is faced with serious problems in the condition of existing housing, especially in urban areas. Construction and materials are often of poor quality and community facilities, infrastructure and environmental conditions need improvement, as well.

Housing policy and its implementation programs are constituted as integrated components of the overall national development policy. They are closely interrelated to other policies in wider sectors, such as urban and regional development, land use, monetary policy, industrial development, health and so on. This is determined by the Third Five Years Development Plan

(1979 - 1984), known as PELITA III. Basically, the housing production process lies in the hands of the people themselves, while the government provides the necessary regulation, supervision and stimulation. In this context, the government is directly involved in carrying out activities which the people and the private sector cannot provide, such as the provision of community infrastructure, low income housing, and supporting facilities for private sectors.

In the rural areas, which contain approximately 75% to 80% of the country's population (120 million in 1971), housing is mainly produced by individuals through the principles of self-help. The government programs, related to more comprehensive rural socio-economic development, are concerned with the improvement of housing and environmental sanitation. Demonstration projects have been carried out in hundreds of villages where small grants of up to $50 are provided to families for basic shelter upgrading and water and toilet facilities. Educational information and technical assistance is also provided. In the planning and implementation of rural housing schemes, coordination has been established through the Ministries of Interior, Social Affairs, Health, and Public Works and Electric Power.

GOVERNMENT ROLES IN HOUSING

At the beginning of PELITA II in 1974, the government recognized the need for greater emphasis on the housing sector, particularly the urban problems of the low and moderate income groups.

The National Housing Policy Board (BKPN) was created for the purpose of developing policies and strategies, as well as monitoring program implementation at the national level. This Board consists of the Minister of Public Works and Electric Power (designated Chairman), the Minister of Social Affairs, the Minister of Interior, the Minister of Finance, the Minister of Industry, the Minister of Manpower, Transmigration and Cooperatives, the Minister/Vice Chairman of the National Development Planning Agency, and the Governor of the Central Bank. The Director General of Housing, Building, Planning and Urban Development (under the Minister of Public Works) acts as a member and Executive Secretary. The supervision of activities related to housing development fall within the affected and responsible ministries.

The actual development of housing is done largely by individuals and private sector organizations such as real estate developers and cooperatives. The housing provided through priate organizations is largely for middle and upper income groups. For government-sponsored housing development for the low and moderate income groups, the National Urban Development Corporation (PERUMNAS) was formed in 1974. The urban housing program has three main thrusts:

Kampong Improvement Program (KIP). In PELITA II, the KIP was armed at improving living conditions and community environment of the lowest income groups. While not focusing on housing directly, the KIP includes the provision of physical and social infrastructure such as neighborhood roads, drainage, water supply, public baths, toilet facilities, primary schools, community health centers, and so on. Since PELITA II began, the Indonesian Government has speeded up the KIP in Jakarta, by providing loans to the local government which were originated from the World Bank. This program is to be expanded to other large cities.

- Sites and Services Program (S&S). This S&S program is mainly directed toward the provision of new planned neighborhoods for the low income groups, consisting of lots, core houses, and essential community facilities. The total need for S&S during PELITA II was about 225,000 units. PERUMNAS was to develop 53,000 units, about half in the Jakarta area. Local governments were also expected to participate.
- Low Cost Housing Program (LCH). The LCH program is mainly directed to the provision of housing for moderate income groups. Up to 90,000 units had been projected in PELITA II. Implementing

agencies for LCH are PERUMNAS, local governments and non-profit housing organizations. Private enterprises are also expected to participate in this program with government incentives and facilities.

One additional organization formed in 1974 to support the implementation of the government's housing programs was the Bank Tabungan Negara (BTN) or the National Savings Bank. BTN supports homeownership by providing long term housing loans to buyers of houses supplied by PERUMNAS or privately developed houses of similar costs and standards.

PERUMNAS. PERUMNAS has developed several different housing finance programs, each suited to the needs of different applicants, with preference given to civil servants. These include the following:

- Rental housing at subsidized rates with a 30 year term.
- Hire (rent) - purchase housing with a 20 year term.
- Conventional mortgage housing financed with a loan at 12% and a maximum repayment period of 20 years.

Present normal practice is for PERUMNAS to administer the occupancy of a house in two stages. In State I, the house is rented and the occupant is expected to establish permanent residence in the house and demonstrate that he is willing to respect the terms of the rental agreement. The minimum duration of Stage I is normally two years. The occupant then has the option of staying in rental status or applying for a hire-purchase arrangement. If his application is accepted, he can then acquire Stage II ownership of the house at terms that are less subsidized but still within payment ability. Through mid-1978, PERUMNAS had not sold any housing, but a proposal has been made to sell large clear lots and a portion of the larger housing units. The intent is to reduce PERUMNAS' total capital needs through cross subsidy and encourage outright home ownership among those able to make the payments required. BTN is to make adequate financing available for long term mortgages at subsidized rates.

PERUMNAS' total budget for PELITA II was approximately $219 million, of which over 90% was directed for land development and housing construction. Approximately 75% of the budget comes directly from the Government of Indonesia, while about 11% comes from outside borrowings and 14% from sales of dwellings. PERUMNAS is divided organizationally into four departments: Planning, Construction, Estates, and Finance and Administration.

The four department Directors and the Chief Director constitute the PERUMNAS Board, which is responsible for the overall management of the agency within the policy guidelines and program targets established by the government. In addition to the Jakarta headquarters, there are several project offices responsible for construction and estate management on specific sites. Branch offices are planned.

PERUMNAS projects for PELITA II will ultimately provide housing for over 100,000 families, or a total population of about one-half million. The vast majority (over 80%) of these people will be housed in "new communities" of 20,000 people or more. Thus community planning has become an important aspect of the PERUMNAS program. Each site must be provided with new services and facilities and/or integrated with the existing city. To identify appropriate land to be acquired for its program, PERUMNAS has undertaken research on various cities. Population growth and economic factors are evaluated in determining the target group and development program for each site. Given a budget limitation for land costs, it has been difficult in some larger cities to find well-located sites with good access and services. For the lower income groups, close in sites near markets and employment are preferred to minimize travel costs, while middle income residents can afford to go farther out to suburban sites. Local government officials generally assist in land acquisition, providing data on land values, and liaison with residents.

Estate management of completed projects as of the beginning of 1978 covered over 17,600 units in 16 projects in 10 cities.

To date, allocation procedures have been based on the requirement that income ranges between $35 and $240 per month, that applicants have been employed at least 10 years and do not already own a house. Generally government department heads have recommended applicants (who are in civil service), with PERUMNAS making the final decisions and relating house type to household income. Various other approaches are under consideration, such as relating family size to space needs and adjusting rent levels to ability to pay. Also there are proposals for adjusting income criteria to reach the lowest income groups with subsidy, and opening registration to the general public. Under the rental contract agreement, house maintenance and repair is the responsibility of the tenant. Expansion of houses (there are very few high-rise flats) may also be done by the occupants with approval of the PERUMNAS project manager. Due to the general absence of adequate local government services, PERUMNAS assumes responsibility for maintenance of open space, landscaping and infrastructure, as well as some community facilities.

Bank Tabungan Negara (BTN) (National Savings Bank). Having been created in 1974 by the government, the BTN began operations in 1976. Its purpose is to provide mortgage credit at below market interest rates to support homeownership among low and moderate income families in Indonesia. It is virtually the only institutional source, public or private, of longer term mortgage financing available in the country. By the end of 1978 it had received about $10 million in equity capital from the Bank of Indonesia. These funds have been used not only for providing mortgages but to support an administrative staff of 650 employees in 7 branches located throughout Indonesia. BTN has a Board of Directors comprised of its 3 top executives: the President-Director, the Director of Operations, and the Director of Non-Operations. By law, BTN can only invest its resources in mortgage loans and short-term time deposits. Individual savings accounts comprise about 20% of BTN's capital. Savings deposit rates of interest, which are controlled by the Bank of Indonesia, are currently 9% and 15%, depending upon the amount of deposit.

The BTN is able to provide mortgage financing to privately-developed housing as well as to housing developed by PERUMNAS. In 1978, approximately 3,500 loans were made (all non-PERUMNAS) and 6,000 loans are targeted for 1979. Moreover, BTN has committed take-out loans for about 20,000 privately developed units under construction. BTN is not allowed to provide construction financing, so this is accomplished either through the 10 government-owned commercial banks at 18% interest or private commercial banks at a somewhat higher rate. Before construction financing will be provided through either source, a takeout commitment letter must be obtained from BTN. To be eligible for such longer-term loans, the private developers must construct low cost housing with the following parameters:

- 100 square meter house and 250 square meter lot maximums;
- maximum housing cost of $10,000 in Jakarta and $7,500 in the remainder of the country.

For this privately developed housing, the Bank of Indonesia is now providing 80% of the funding at a cost to BTN of 3%. 20% must come from other sources, including the possibility of foreign assistance from the Asian Development Bank, USAID, the United Nations or other sources. Because of high prevailing interest rates in Indonesia, such an investment would appear to be quite economical and feasible. BTN charges 9% interest with 15 year terms to borrowers purchasing such privately developed housing. Downpayment requirement is 5% for houses priced less than about $4,100, and 10% for houses over that amount.

For purchasers of PERUMNAS-developed housing, the maximum cost per unit is about $6,000 and the interest rate is 5% with a maximum term of 20 years. Downpayment required is the same as above. The same size requirements listed above apply here also. It is expected that only a small proportion of PERUMNAS occupants will qualify for purchase rights in the near future because of the requirement of having a fixed and steady income. Funds to support these mortgages will come from the Bank of Indonesia in the form of equity or no-interest loans.

BTN has recently been approached on the possibility of providing longer-term mortgage funds to finance core house purchases in the government's Sites and Services Program. Two important issues are whether the residents can be educated to regularly pay mortgage payments and whether this is economically feasible (even at a 5% interest rate and 20 year terms).

It seems clear that BTN is an extremely critical institution in the development of an effective and efficient housing finance system in Indonesia. Significant expansion of BTN is necessary to support growing government and private housing development. Not only will new capital resources be required, but adequately trained personnel are also difficult to find.

PRIVATE AND INFORMAL SECTORS

Private commercial banks provide very little funding for long-term mortgage financing. Some private developers are able to attract foreign capital but the terms are very unattractive at 50% downpayment, 24% interest and 5 year repayment period. With no secondary market to increase liquidity and with high inflation, private lenders have little incentive to divert funds from shorter-term and more lucrative commercial investments.

Informal financing of housing through friends and families is quite extensive in Indonesia. Oftentimes, families will pool their resources to build a home and rent it to foreigners or middle income Indonesians. Rent is collected in advance for the entire contract term and it is not unusual to recover the cost of construction in the first 3 year contract. This is one of the few means for families to generate some relatively inflation-proof wealth. In the rural areas and smaller towns, there are virtually no institutional sources, public or private, of mortgage financing.

Other small-scale sources of funding for housing include cooperatives and several government ministries who buy land and build housing for sale or rent to their employees at subsidized rates. Large corporations have also been known to do this.

POLICY ISSUES

Several areas of major concern for Indonesian housing policy-makers are as follows:

- Because of high market interest rates, heavy government subsidies are required to assist the large numbers of poor people with their housing problems. Land in urban areas is very expensive as well. Thus, difficult decisions are required as to what priority housing expenditures shall have versus other competing national development goals.

- Private savings have become quite uneconomical due to high inflation and currency devaluation. Fixed assets like automobiles and homes are seen as better investments. The question is how to mobilize more institutional savings for housing investment and then develop mechanisms to combine and leverage these market rate funds with government funds to reach lower or even middle income families.
- Past government policy has not advocated slum and squatter clearance and subsequent relocation to high-rise flats. Upgrading through KIP and S&S has been preferred. There are questions being raised as to whether some selective clearance and relocation to flats is not desirable. As other countries have learned, the social and psychological implications of such moves are complicated and critical to long term success. Also economic effects on current residents should be analyzed thoroughly.
- The Kampung Improvement Program has provided improved infrastructure and services to thousands

of families at quite a low cost per family. But certain socio-economic aspects such as job-training have not been included. Neither have funds for improvements to the dwellings themselves. Under the United Nations Development Program, a project is being undertaken to establish local credit unions to channel short-term loans to families who wish to improve their houses. A maximum amount of about $250 is anticipated, with a 24% interest rate and a 2 year repayment period. It remains to be seen whether such a program is a feasible response to the situation.

KOREA

General Introduction

The Korean government prepares 5 year Economic Development Plans, which include a housing policy section with specific construction targets to be overseen by the Ministry of Construction. But the public sector is only meeting a small percentage, about one quarter to one third, of the growing housing needs. Except for a few isolated and relatively insignificant instances, including life insurance companies, there is only one source of long-term mortgage finance for housing; the Korean Housing Bank. The informal sector is providing for roughly half of the financing needs. Koreans have an unusually high rate of saving, so self-financing and loans from relatives and friends play a significant role.

Several policy issues of importance include:

- the need to develop more effective strategies and programs to maintain, improve, and rehabilitate existing housing stock.

- the need to further target available resources in order to better assist families with varying levels of need.

- the need to experiment with different mortgage finance mechanisms, such as graduated payment mortgages.

Korean Housing Bank (KHB)

The Korean Housing Bank was established in 1967 to act as a financial intermediary through which private capital could be channeled into the housing sector. In recent years KHB has financed approximately 25 percent of all new housing construction in Korea.

The Korean Housing Bank was established for the primary purpose of supporting the formation of capital in favor of low and moderate income housing and assuring the effective supply and management of housing funds.

The principal characteristics of the Bank are:

1. The Bank is distinguished from commercial banks, which are oriented toward profit-making, in that it was incorporated as a special entity under a special law to assure housing finance for moderate income housing projects and to provide homeless families financial support.

2. The central government is required to subscribe more than one half of the authorized capital.

3. The Bank offers to the general public a variety of savings instruments peculiar to its business operation including Housing Installment Deposits, Housing Debentures, National Housing Bonds and Lotteries, and also provides the same deposit instruments as offered by the commercial banks, including demand and time deposits, time installment deposits, and others.

The Bank's sources of funds include consumer deposits, borrowings from the government, bonds and debentures, and special housing accounts. The U. S. Agency for International Development (AID) has also provided capital to KHB through its Housing Investment Guarantee (HIG) Program.

Due to the extremely high rates of interest in the private financial markets of Korea, KHB, like other savings institutions, finds it very difficult to attract savings deposits. To encourage deposits, especially of a long-term nature, KHB has instituted several savings programs. In addition to a passbook savings plan, several savings plans are in effect by which the depositor contracts to make monthly deposits over a certain period of time in order to accumulate a certain contract amount which includes interest on his monthly payments. Participation in one of these deposit contracts is required for an individual to apply for a housing loan from KHB.

As of the beginning of 1978, KHB offers two kinds of contract savings plans: the "Housing Installment Savings Deposit Scheme" and the "Fortune Formation Savings Plan." The Fortune Formation Savings Plan was instituted in April 1976 as a heavily government-subsidized means of enticing savings from and providing housing for low to moderate income households. Since the income cutoff for this program is 250,000 won per month, eligibility for this plan will include over 80 percent of the households in Korea through 1978. The privileges associated with this plan include interest rates paid by the bank from 13 to 16 percent per year in addition to a bounty or additional interest payment from the government to the depositor of 11 to 12 percent per year, making his total interest yield 24 to 28 percent per year. The entire amount of interest and bounty is excludable from income tax, as is 15 percent of the monthly deposit amounts. After three years participation in this plan, the household is eligible for housing construction or purchase loans from KHB. The generous provisions of this plan, limited to salary and wage earners, enticed over 325,000 depositors in its first year of operation with deposits of over W10.5 billion. This savings plan does not provide priority in qualifying for a loan.

The other primary method of depositing at KHB is the Welfare Housing Installment Savings Deposit Scheme. This plan carries substantially fewer benefits than does the Fortune Formation Plan previously described. It pays an uncompounded interest rate of 15 percent, and entitles the depositor to loans for housing purchase or construction after one-third of the contract payments have been made. The contract amounts available for this type of loan range from 100,000 to 2,000,000 won, payable in terms of 6 months to 5 years. Newly introduced in February 1977 is the benefit that a borrower is qualified for priority in procuring a national housing loan or HIG-financed loan if he accumulates as much as 500,000 won in 6 or more payments in such a deposit plan having a 6 month to 2 year maturity. Since the national housing loan (which used to carry an interest rate of eight percent) now carries the same interest rate as the other construction loans available from KHB, qualification for a national housing loan is a questionable advantage. However, qualification for an HIG-financed loan would be an advantage to the home buyer if the HIG loan will operate under a graduated payment mortgage system while other loans do not.

To summarize the information about the contract savings and loan plan, it seems that, given the information available, an individual could not finance even the minimum priority qualification amounts through regular income sources if he were in the HIG target income group. However, the contract savings system is affordable for both accumulating the downpayment and for meeting minimum priority requirements, so long as it is used as a mechanism for channeling funds previously saved or procured from sources other than regular current income.

The use of the contract savings system for priority should therefore not impose a severe affordability burden on the target income households. However, it would seem to promote long term funds procurement for KHB and affordability for the home buyer-depositor if contracts for a period of greater than two years were to qualify depositors for housing loan priority. In this way, payments could be reduced to a level which would fit within the typical savings capability of lower income families.

Uses of Funds. Loans provided by the Bank are generally classified into housing and commercial loans. Housing loans may be divided into national housing construction loans and private housing construction loans. Funds necessary for national housing construction loans are raised through the issuance of national housing bonds, sales of housing lotteries, and loans collected in accordance with the provisions of the National Housing Construction Promotion Law, promulgated on December 30, 1972.

These funds are released to central or local governments, the Korea National Housing Corporation, and other building contractors, whose housing projects have been approved by the Minister of Construction subject to the provisions of Article 3 of the National Housing Construction Promotion Law.

Among the instruments offered by the Bank to raise private housing construction funds are capital subscription, a variety of deposits, housing installment deposits and loans collected.

The funds are released for individual single detached house construction, purchase of dwellings and housing lots, partnership housing construction, company house construction and construction of apartment buildings for sale or rent.

In addition to the housing loans mentioned above, the Bank is authorized to extend commercial loans to promote the raising of loanable funds.

However, the amount of commercial loans is not allowed to exceed more than 20 percent of the amount remaining after deducting legal reserve requirements from the aggregate amount of funds raised.

Terms

Classification		Type of loan repayment	Term	Interest rate	Loan to cost ratio	Loan to value ratio
Private Housing Construction Loan		monthly level payment	repayable in 20 years including one year of grace period	14%	up to 80%	up to 80%
Partnership Housing Construction Loan		monthly level payment	repayable in 20 years including one year of grace period	14%	up to 80%	up to 80%
Company House Construction Loan based on "Salary and Wage Earners	to employer during construction period	loans on bills	up to 3 years	14%	up to 70%	up to 80%
Fortune Formation Law"	to employees after sale	monthly level payment	repayable in 20 years including one year of grace period	14%	up to 80%	up to 80%
Company House Construction Loan based on the Bank's law		monthly equal principal payment	repayable in 10 years including 6 month grace period	15.5%	up to 80%	up to 80%
Builder's Housing Construction Loan including loan to purchaser	to builder	loans on bills	up to 3 years	Preferential builder: 15% other builder: 16%	up to 70%	up to 80%
	to purchaser	monthly level payment	repayable in 20 years including one year of grace period	14%	up to 80%	up to 80%

Terms (continued)

Classification	Type of loan repayment	Term	Interest rate	Loan to cost ratio	Loan to value ratio
Loan for Purchase House	monthly level payment	repayable in 20 years including one year of grace period	14%	up to 80% of the value appraised	up to 80%
Loan for Remodeling	monthly equal principal payment	repayable in 5 years	14%	up to 80%	up to 80%
Loan for Purchase of Housing Lot	monthly level payment	repayable in 10 years including 6 month leave	14%	up to 80%	up to 80%

Future Activities. The provision of housing in Korea, as previously described, is confronted with a critical condition.

Even in the 1980's, it is expected that urbanization and the tendency toward the nuclear family will be more prevalent due to advanced industrialization. High priority will be given to solving the housing problems in achieving social welfare.

Housing experts indicate that the number of newly constructed housing units and replacement housing will reach around 7.7 million units and fund requirements are estimated at 16,000 billion won. They argue that the housing investment as a percentage of GNP must be raised from the current 3 percent to 5 to 6 percent, which means that the Korea Housing Bank which provided 56.2 billion won in financing housing construction or a quarter of the total housing construction funds in 1977, should offer more than the annual average sum of 250 billion won in 1970's. This would require an expansion of the size of the bank.

To meet these requirements, the Korea Housing Bank will raise 1,336.4 billion won providing 1,078.5 billion won for housing and 257.9 billion won for other purposes during the projected period from 1977 to 1981.

The Bank presently comprises 13 departments, 4 offices, 36 sections in the head office, and will be expanded to 17 departments, 4 offices, 36 sections and the branch network. The number of personnel will increase from 75 offices and 2,914 staff members to 120 offices and a staff of 5,414.

Various types of interest rate offered by the Bank, ranging from 8 to 16 percent, will be coordinated into a single interest rate of 14 percent. The size of floor area, regulated under the Bank's law for the eligibility of housing loans, will be expanded from 85 square meters to 115.7 square meters.

Every effort will be made to raise funds through the existing savings deposit system, for the expansion of the organization, and the introduction of new financing and administrative methods. As a consequence, it is expected that the Bank will become the largest banking institution in the country in the next decade.

Public Sector Housing Programs

The role of the public sector in Korean housing is considerable. It involves programs for land development, public housing construction and public finance. The total number of units, either constructed directly in or financed by the public sector, in 1974 was 45,500 (about 28 percent of all housing construction).

Public housing construction is jointly the responsibility of the cities, the Korean National Housing Corporation (KNHC), and other agencies of the Government. The types of units include rural duplex units, independent houses and apartments for either sale or lease. The most visible component has been five-story walk-up apartments which have been constructed in Seoul, Pusan and the major provincial cities. Experimental rowhouse units have been constructed and are expected to be continued.

Large-scale land development at present is largely the responsibility of the cities. They either develop land directly or, particularly in the smaller cities, facilitate land development by the private sector. In either case, a process called land readjustment is the most common mechanism. In this process, the developer notifies private landowners of its intent to develop an area. A readjustment plan is then prepared, in which the developer identifies parcels needed for public purposes and for sale, in order to recoup development costs. The remainder is then returned to the original landowners, in proportion to their original ownership. If properly planned and carried out, the increase in land values is sufficient to recover construction costs and to return land to the original owner with a value in excess of that of his original land.

Land readjustment has been practiced in Korea since 1937, with most of the activity in the late 1950's and 1960's. Through 1974, a total of 67,410,000 pyongs had been developed for housing sites sufficient to house as many as 10 to 15 million persons if used efficiently. Thus, the mechanism appears to work well.

It could be administered in such a way as to provide an increased supply of lots for the low-income groups.

During the First Plan Period (1962-1966), the public housing program was limited to about 10 percent of the total housing units constructed, primarily because of a lack of financial resources. In 1968, the second year of the Second Plan, the Public Housing Program was greatly enlarged, by implementing a "citizens' apartments" program. This program was financed out of general funds and administered by the city governments under the Ministry of Home Affairs. During the entire period of the Second Plan, public housing construction amounted to 19 percent of all units built.

In 1972, following a collapse of one of the "citizens' apartment" units and evidence of structural faults in other units, the principal responsibility for public housing construction was transferred from KNHC to the Ministry of Construction. The total public sector program was expanded to 22 percent of the total units constructed. During this time, the sources of public housing finance also underwent transformation, with increasing reliance upon national housing bonds and a lottery administered by KHB as a source of funds and less reliance upon general revenues.

There are at present a number of housing programs directed at different situations and methods of implementation within Korea.

In 1976, the total government program was planned for 74,500 units, with approximately 40 percent of the total expected to be built in that year. Within the public sector total, KNHC was expected to construct 26,000 units, primarily apartments, while a substantial number of apartments and other types of housing were assigned to the cities, local autonomous bodies and other agencies.

The costs of publicly-constructed housing range, in 1976 prices from W210,000 per pyong for 13-pyong lease apartments in urban areas to W70,000 per pyong for 15-pyong units. Based on income and affordability analysis, it is apparent that the present program does reach all but the lowest income groups. But, it must be kept in mind that it is not implemented on a sufficient scale to reach even the majority of those needing and requiring housing.

KNHC. Within the total Public Housing Program, the programs of KNHC are of particular interest. The programs of KNHC have developed in three distinct phases: (1) 1962 to 1967, during which time the activities of the corporation were approximately equally distributed between the construction of single and row houses, apartments, and site development; (2) from 1968 to 1971, during which time single and row house construction was curtailed while the land development programs were expanded greatly; and (3) from 1972 to present, when its activities have been restricted with few exceptions to apartment construction which has been expanded. It is expected that the KNHC will construct row houses in the secondary cities during the Fourth Plan period, in an effort to reduce costs. It will also serve as the agency responsible for the AID-financed Home Improvement Program in the secondary cities, although much of the actual implementation will be delegated to the cities wherever possible.

Overall, KNHC has focused on low-income units and has built high-income units for special purposes, to demonstrate new concepts, or to gain capital necessary to finance low-income units. Within the total KNHC Program, AID has played a significant role: AID financed units amounting to 29 percent of the total in 1973 which increased to 39 percent before dropping to 19 percent in 1976. Furthermore, AID funding subsequent to the initial loan has been focused on smaller units to impact the urban poor.

TABLE 15

1976 Korean Public Housing Program

Number	Program
10,000	13-pyong apartments for lease administered by KNHC and the cities.
26,000	12 to 25-pyong apartments for sale administered by KNHC.
3,500	Other apartments administered by sponsoring government ministries.
3,200	12 to 25-pyong, single-story, duplex houses administered by local autonomous bodies and sponsoring government agencies.
19,100	18-pyong independent houses administered by KHB, Seoul City and local autonomous bodies.
8,200	15 to 18-pyong rural houses administered by the local autonomous bodies and other government ministries.
3,500	12 to 25-pyong houses for resettlement of former residents of industrial estates.
1,000	9-pyong apartments for resettlement of former residents of houses removed in the cities, administered by the cities and local autonomous bodies.
74,500	

SOURCE: Ministry of Construction. 1976 National Housing Construction Plan and Guiding Principles for Fund Management. (Typed English Translation)

THAILAND

GENERAL INTRODUCTION

Thailand is endowed with a reasonably diverse system of financial institutions, including commercial banks, finance companies, a housing bank, life insurance companies, mortgage credit fonciers and, in the public sector, the National Housing Authority. Few of the private financial institutions, however, are particularly committed to or active in residential finance. To support escalating future housing finance needs, there is a need to develop a much stronger specialized financial institution(s) which is efficiently structured for the provision of long-term low cost housing finance, and associated services to developers and purchasers of residential properties. Improvement in the efficiency of housing capital markets would have the dual benefits of lowering borrower costs and stimulating improved physical and social environment through increased housing development.

CREDIT FONCIERS

Credit fonciers are chartered by the government for mortgage lending. They are a relatively new institution, and may well be the forerunner of a much more highly developed mortgage lending system than presently exists. Credit fonciers do not issue savings deposits in the same way that commercial banks do, however, they may borrow from individuals and in the commercial paper market. Long-term borrowings by credit fonciers is presently limited, however, but some borrowing to ten years does exist. The capital structure of the credit foncier consists of bonds or debentures, shares and short term and intermediate term borrowings. Late in 1973, credit fonciers were paying about 8.76% for call money, and were borrowing from commercial banks on a one-year term at approximately 9.5%. Debentures up to a term of approximately 5 years are issued at an interest rate of approximately 10%. Two of the lending credit fonciers in the Bangkok area are the Thai Housing Corporation and the Bangkok Home Development Corporation. Credit fonciers do engage to some extent in construction or development lending. In the case of Bangkok Home Development Corporation, a loan may be made for one year on 60% of the value of the improved site and house. Construction lending of this type is presently carrying interest rates of approximately 14%. In the event that the Bangkok Home Development Corporation joint ventures with the Builder-Developer, 90 to 100% financing can be obtained for the builder. In this instance, interest rates to the builder are approximately 12.5% plus 20% of the profits from the project. In the case of the Bangkok Home Development Corporation, if a joint venture has been undertaken, permanent mortgage lending on the houses can occur up to 90% loan to value ratio. Where the company acts only as a mortgage lender, a 75% loan to value ratio is the upper limit. Front end charges exist for the financing of development, and seem to be in line with practices elsewhere. Generally approximating 1.5 to 2% of the amount of the credit granted. Credit fonciers, while charted for the purpose of mortgage lending, have some substantial difficulties which must be overcome before the nation's mortgage needs can be efficiently served from this source. First, the sources of capital to the credit foncier are extremely limited when compared to those available to the commercial bank. The credit foncier has no effective method of tapping mass savings accounts at this time or offering the combination of savings and mortgage lending to its possible mortgage clients. Important improvements in the credit foncier law that would substantially facilitate the generation of housing capital, would include, (1) the ability to go to the public for savings deposits, on terms competitive with those offered by the commercial banking system. This would eliminate the middle man to a large extent in the mortgage transaction, that is, the credit foncier would no longer have to borrow from the bank which solicited funds from the public, but could, rather, obtain funds from the public directly; (2) the relatively inferior financial position of the credit fonciers does not give them the degree of public confidence that presently resides with commercial banks. Suggestions have also been made regarding the possible development of insured savings accounts, which would eliminate such differences and place the acquisition of mortgage capital on an equal footing with savings acquisition by commercial banks.

THE GOVERNMENT HOUSING BANK (GHB)

The Housing Bank was established in 1953 with the purposes of mobilizing savings deposits and providing long term finance for housing. In its first 20 years of operation. the Bank had only accumulated 253 million Baht or US $12.6 million in assets and had not developed into a significant source of housing finance. But a top management change in 1974 propelled the Bank into a much more aggressive growth pattern. But with no branch offices, unlike commercial bank competitors, future growth prospects are somewhat uncertain. For example, the Government Savings Bank has hundreds of branches nationwide and has succeeded in attracting millions of small consumer savings accounts. Unfortunately for housing, most of the Savings Bank's investments have gone into Royal Thai Government (RTG) securities.

GHB lending policy is one which involves no subsidization. The interest rate structure adopted by the GHB discourages high-income borrowing and speculation and encourages new construction in the following way. In 1976 for loans under ฿ 300,000 (US $15,000) for the purpose of acquisition of land and buildings and for home improvement, the GHB interest rate was 12%; for loans under ฿ 300,000 for the purpose of refinancing (i.e. purchase of existing dwellings), the rate was 13%; and for loans under ฿ 300,000 for land acquisition only, the rate was 14%. In each of these categories, the interest rate is 1% higher for loans above ฿ 300,000. Maximum loan-to-value ratios for individual borrowers was 60%, although when the GHB makes long-term lending commitments to a developer for a particular housing project, loan-to-value ratios can rise to 90% if the developer guarantees the difference. In 1976, the maximum maturity offered by the GHB was 15 years. Comparable terms offered by the commercial banks, the finance companies, and the credit fonciers were 14 -15% in all loan categories, 40% - 50% loan-to-value ratios, and 10 year maximum maturities. Although it would appear that an incentive exists for high-income families to borrow from the GHB, the GHB in practice gives preference to lower-income borrowers, as the following data illustrate. During the month of May, 1976, the GHB made 252 housing loans, 49.2% of which were made to families earning between ฿ 1000 and ฿3000 (US $50 - $150) per month. (Median family income in the Bangkok metropolitan area was approximately ฿ 2600.) Indeed, almost 80% of the loans were made to families with incomes of less than ฿ 5000 per month.

Issues of importance for the Housing Bank include the following:

- interrelationship with the National Housing Authority and exploration of further areas of mutual endeavor and support.

- development and review of branching policies and the potentially counter-productive competition with the Government Savings Bank.

- strengthening of internal procedures, particularly mortgage loan administration.

THE NATIONAL HOUSING AUTHORITY

The National Housing Authority (NHA) was established in 1973 to serve as the instrumentality of the Royal Thai Government in providing housing for low and middle income groups. This action centralized the efforts of several RTG agencies which had been charged with this responsibility, and set the stage for a more concerted RTG effort in the shelter sector.

The NHA is a state enterprise charged with wide-ranging responsibilities: it builds homes for the people; solves urban housing problems; conducts urban community development; clears slums and resettles the persons affected by the clearance; provides dwellings and estates for rent, sale and hire-purchase and also manages them; subsidizes and guarantees tenants and buyers, etc. It is authorized to perform those functions by itself and/or in cooperation with the private sector. It can invest in private community housing projects and subsidize or encourage them. The funds for its operation are acquired through loans and government subsidies. Its loans are guaranteed by the Government. Its incomes come from those who rent, buy or hire-purchase the provided dwellings and estates, as cost of construction, estate management charges, rental and interests. Its incomes are destined for the payment of its debts, covering building costs, paying its employees and covering its overhead expenses. Since the NHA's objective is to help low and middle income groups own or take residence in the provided dwellings in accordance with governmental policy, the NHA seeks no profit other than what it must earn to provide itself with an adequate income for self-reliance.

The government's commitment to improved shelter has taken the form of a five-year development plan which calls for construction of approximately 24,000 housing units per year during fiscal years 1976 through 1980. Such a production level represents a substantial increase over past public sector accomplishments and is intended to elimiante housing shortages and substandard accommodations.

The NHA is organized under the Ministry of Interior into the Governor's office and three departments. Policy is set by a board of directors--the Housing Board--which reports directly to the Minister of Interior. The three departments are the Research and Construction Department, the Estate Management Department, and the Finance Department.

Important issues to NHA in achieving successful implementation of plans include the ability to expand and organize staff and management talent, the availability of developable land, and the availability of financing.

Financing of expanded NHA operations is multi-faceted. The RTG contribution involves outright capital contributions as well as "concessional" loans of approximately 4% interest at terms up to 20 years. External borrowing sources include AID and the World Bank. Remaining financial requirements would generally be handled through domestic commercial sources. See accompanying table.

Such commercial debt is not only dependent on available capital supply but also on the viability of the secondary market for trading such debt issues. Without a well-functioning vehicle for liquidity, many investors may avoid longer-maturity securities. The Securities Exchange of Thailand was established in 1974 and deals in both debt and equity instruments.

Inasmuch as the NHA is viewed as the principal developer of housing for low and moderate income groups, some observers believe it is logical to think of the Government Housing Bank as the principal source of long-term housing finance for these groups. It is certainly clear that close policy and program coordination between the two entities is important. For example, investment of NHA (surplus) cash balances in the Housing Bank would provide financial support for the expansion of contractor capability, and increase the capacity of the building materials industry needed to support NHA development and construction programs.

NATIONAL HOUSING AUTHORITY
SOURCES OF FUNDS

	FY 76	FY 77	FY 78	FY 79	FY 80
LOANS FROM COMMERCIAL BANKS (LEGAL RESERVES) TERMS: 4%, 20 years	1,000,000,000	500,000,000	300,000,000	200,000,000	200,000,000
GOVERNMENT SAVINGS BANK TERMS: 10%, 10 years	200,000,000				
KRUNG-THAI BANK TERMS: 9.5%, 10 years	200,000,000				
NHA BOND ISSUES TERMS: 10%, 15 years		200,000,000	500,000,000	700,000,000	750,000,000
GOVERNMENT HOUSING BANK TERMS: 8%, 20 years			200,000,000	500,000,000	750,000,000
AID HOUSING GUARANTY LOAN TERMS: 9.5%, 30 years		500,000,000	200,000,000	300,000,000	
IBRD LOAN TERMS: 9%, 30 years		500,000,000	500,000,000		
RTG CAPITAL CONTRIBUTION	350,000,000	350,000,000	350,000,000	350,000,000	350,000,000
TOTALS:	1,750,000,000	2,050,000,000	2,050,000,000	2,050,000,000	2,050,000,000
WEIGHTED AVERAGES:					
RATE OF INTEREST	4.52%	6.59%	5.93%	7.15%	6.98%
TERMS TO MATURITY*	20.71 yrs	26.96 yrs	24.76 yrs	22.32 yrs	20.74 yrs

* MATURITY OF RTG CAPITAL CONTRIBUTION ASSUMED TO BE 35 YEARS

OVERALL WEIGHTED AVERAGES:

INTEREST RATE	6.43%
TERM TO MATURITY	23.10 yrs