Country Report – THAILAND

1. Socio-economic Snapshot
   1. Population

Population of Thailand is 67,091,089, with a population density of 132.7 people per sq.km. Population-wise the country is 20th in the world. The population is overwhelmingly Buddhist 94.6%, among others Muslims 4.6%, Christians 0.7% and others 0.1%. The population growth rate is merely 0.54%. Thirty four percent of population lives in urban areas, and urbanization rate is 1.8%.[[1]](#footnote-1)

* 1. Per Capita Income

Thailand’s per capita income is US $5394[[2]](#footnote-2).

* 1. Affordability

Affordability is seen as the ability of a household to earn an amount 25% of which can be paid off for housing. The Government of Thailand once encouraged Government Housing Bank and other commercial banks to extend repayment period up to 30 years to ease the borrower’s financial burden and to increase affordability for homebuyers. But most Thai borrowers prefer to borrow for a term of between 15-20 years because the extension of the period does not help decrease the amount of payment significantly[[3]](#footnote-3).

1. Measures of Affordability
   1. Income/Repayment/Cost of housing Units
   2. Definition of Low-Income Housing

Low income housing is the house afforded by people with income of Thai Baht 7,000-8,000 (US $ 220-250) per month.

1. Housing Finance Institutional Framework:
   1. Housing Finance by Commercial Banks

In Thailand the commercial banks are playing real big role in mortgage and housing finance. In housing finance, the commercial banks contributions are nearly 55%, while GHB’s contribution is about 38% and other institutions’ contributions are around 7%. It shows how important role is being played by commercial banks in Thailand’s housing market.

In cumulative terms, the role of commercial banks is predominant and they control over half of the total housing financial markets. Their share decreased over time, from two-thirds to a little more than half of the market, yet they are the main players in housing finance.

* 1. Specialized HFIs-Public sector

Three government organizations are actively implementing government’s housing policies and programmes. These are, National Housing Authority (NHA), Community Organization Development Institute (CODI) and Government Housing Bank of Thailand (GHB). GHB was established in 1953, and since then it is playing a pivotal role in housing sector of Thailand. GHB, because of its effective role, is considered more than just a bank. It is catalyst in economic development, and it is a real estate development leader.

CODI’s activities include the following

* Finance slum-area communities
* Develops community-based savings programs and organization through co-operatives
* Funded from Government budget
* Baan Mankong program – very successful
* Since 2003, CODI has funded more than 77,000 households in more than 245 districts throughout Thailand

These organizations primarily address the middle and lower income housing sector.

Recently the Government Savings Bank (GSB) has also become involved in housing finance. It attempted to devise a new system which has been considered as to be too complicated to be economically viable.

* 1. Specialized HFIs- Private Sector

Private sector is the main housing provider in Thailand, with the government working as enabler behind its back. Because of private sector’s effective role wide range of housing is available in Thailand now, as it has a well-developed private-sector housing industry. Private sector provides most homes from low-income sector to multi-million dollar homes.

* 1. Housing Microfinance Institutions

Not much information is available about microfinance institutions’ activities and involvements in housing finance in Thailand. In Thailand, the commercial banks and the government owned Government Housing Bank and Government Saving Bank are doing commendable job in providing housing in poorer segment to the high level of population.

1. Housing Finance Options for LIG [[4]](#footnote-4)

In Thailand, there are some innovations in housing finance for low income groups that can be applied to other developing countries, and some that can be applied to different financial institutions. The details are as follows:

* **Adjustable term mortgage**

This implies that the mortgage term automatically can be adjusted in accordance with the economic situation. For example, if the interest rate is increased substantially, it will affect affordability and monthly payments by the homebuyers, and the terms of payment will be extended. With an extension of the payment terms, the amount of payment can be kept somewhat the same. This will help keep homebuyers save against economic fluctuations

* **Step-up payback**

Conventionally, the payment by homebuyers will be set at the same amount throughout the entire payment period. This step-up payback attempts to ease the burden on the buyer by allowing them to pay less in the beginning. However, the payment is stepped up over time. It is assumed that buyers will earn more over time. In other words the buyer’s affordability will increase in the future. However, this system does not exist in practice.

* **Hire-Purchase and Mortgage**

There is a hire-purchasing program prior to the home mortgage program. The program aimed to assist low-income groups and those with poor credit worthiness, such as the self-employed or those with an irregular income. These people normally could not afford down payments, and needed to establish credit worthiness and repayment capacity, so that a higher LTV is allowed to them. Once, after having established their credit worthiness under this program, they were able to become homeowners by obtaining access to mortgage credit.

1. Regulatory Framework

In Thailand’s regulatory framework, various bodies and authorities are regulating various aspects of financial sectors. Ministry of Finance is looking after Government Housing Bank (GHB), Secondary Mortgage Corporation (SMC) and other special purpose financial institutions. Department of Lands regulates housing developers; Bank of Thailand takes care of commercial banks and other institutions; Ministry of Agriculture and Agricultural Cooperatives for cooperative departments.

1. A summary of prevailing regulatory regime for housing finance ( Central bank or a special agency), presence of Prudential regulations, Mortgage law, Mortgage Guidelines etc

As above

1. Fiscal Support and Subsidy Programs:

The government establishes a fund or a government bank that offers loans at lower interest rates. The establishment of the Government Housing Bank in Thailand is one such example. This bank, as a state enterprise, has delivered loans at interest rates much lower than those of commercial banks. This is an effort on the part of the government to try to house lower income groups more effectively.

1. Any State level subsidy program Like Interest Rate Subsidy, Tax Incentive, Credit Guarantee

The financial subsidies are applicable in the form of discount or exemption of taxes. For example, the Board of Investment of Thailand helps support low-priced housing projects by discounting taxes on housing developers so that they can build housing units inexpensively for low-income groups. This tax discount or exemption is applicable to buyers as well. For example, there were some discounts on tax transactions and exemptions on transfer fees during the bust period of Thailand in order to boost the economy at large.

1. Community Based Programs for LIH
   1. State Level Program

Major state level program are “Baan Eua-Arthorn-BEA” and “Baan Man Kong-BMK.” The “Baan Eua-Arthorn” is a housing scheme to build and finance 600,000 units of formal housing for the poor. Meanwhile, “Baan Man Kong” (secured housing) is a slum improvement program via financing the poor to upgrade their homes.

Baan Man-Kong: The lessons from Thailand are that proper policies and plans for low-income housing finance need careful scrutiny. Otherwise, they may not respond properly to the needs of the low-income groups. In turn, Thailand can provide many good examples and innovative ideas in housing low-income groups.

* 1. NGO Initiatives

Thailand has a vibrant civil society with active NGOs, but it was only recently they became more active on issues concerning the environment and poverty alleviation.

While writing a paper on “Human Security and Thai NGO & Governmental Role”, the writer Jane J. Simmons wrote that, perhaps the most difficult problem faced in writing this paper was securing reliable information. The Thai NGOs, for example, do not put much, if any, concrete data on its inter-net web pages and certainly no financial or budgetary data.

1. Lessons Learned and way forward: Discuss the constraints in growth of LIH finance, steps needed to address them and way forward:

Though mortgage and housing finance system is quite developed in Thailand, yet there is a need to put a secured transaction law in place.

While Thai law permits pledges of personal property and mortgages, Thailand has no registration system for the recording of security interests in personal property. Loans cannot be secured by accounts receivable. Thai law does not recognize security interests in property that remains in the debtor’s possession. In the absence of a modern secured transactions system, creditors frequently have relied on personal guarantees.

Looking forward, Thailand needs to address following a few issues as early as possible:

1. Handling and addressing irregular incomes;
2. Developing credit bureau or bureaus with credible income records;
3. Establishing housing cooperatives
4. Allowing leasing with option to buy, to address the affordability of the poor

1. CIA- World Fact Book [↑](#footnote-ref-1)
2. http://en.wikipedia.org/wiki/List\_of\_countries\_by\_GDP\_%28nominal%29\_per\_capita [↑](#footnote-ref-2)
3. Housing Finance Mechanism in Thailand, by UN-HABITAT [↑](#footnote-ref-3)
4. Housing Finance Mechanism in Thailand, by UN-Habitat [↑](#footnote-ref-4)