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Mortgage loan trends in Thailand 2011

Unprecedented fourth quarter floods that badly damaged Thailand's industrial and economic sectors also seriously affected its real estate market that had experienced good growth during the first three-quarters of 2011.

The Q4 housing growth slowdown, however, is expected to recover by Q2 of 2012.

During 2011, commercial banks and financial institutions fiercely competed for housing loans through many aggressive marketing strategies that are expected to continue well into 2012.

New housing loans 2011

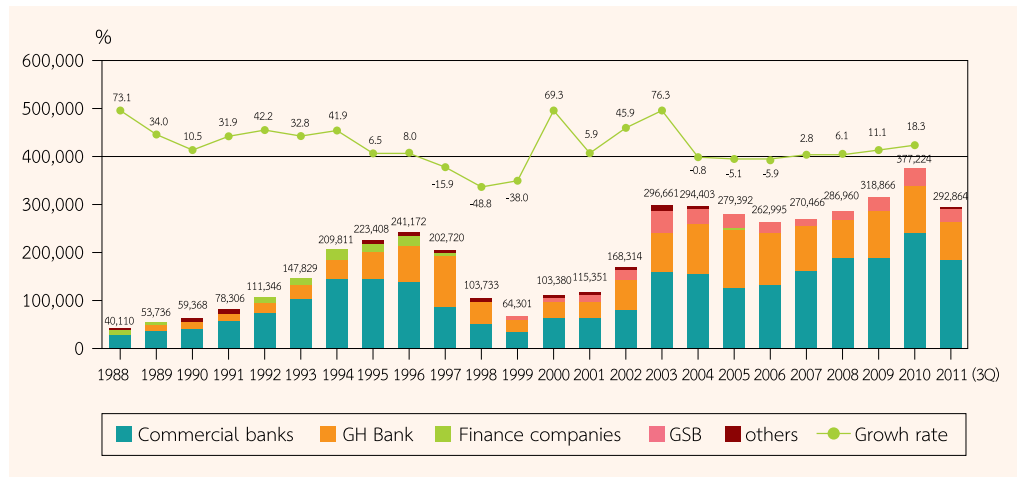
In 2011, approximately Bt340,000 million-360,000 million of new home loans were issued, a 5-10% decline from 2010 (Bt377,224 million) which was a record year.

In the first three-quarters of 2011, financial institutions issued housing loans of Bt292,864 million, a 4.1% growth when compared with 2010 (Bt281,275 million).

Government Housing Bank (GH Bank) housing loans during the first three-quarters increased by 15.2 percent from 2010; commercial bank’s home loans increased by 0.9% and Government Savings Bank’s (GSB) home loans fell by three per cent.

GH Bank’s market share increased from 27.4 percent to 28 percent in 2011 while the commercial banks’ market share fell to 62.2% from 62.7%. GSB’s market share decreased to 9.7% from 10.1%.

New housing loans issued 1988 – 2011 (3Q)



Note : 1. Total - personal loans for housing .

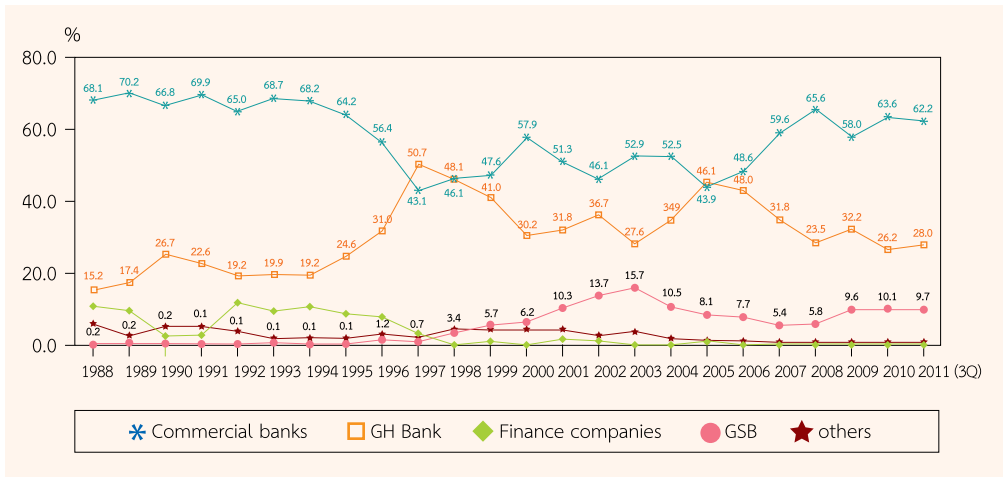
2. In 2003-2004, information from Credit Foncier Company; almost all loans sold to Secondary Mortgage Corporation.

Sources : BOT, GH Bank, GSB, Life Insurance Company and National Housing Authority

Data collected by : Research and Information Services Department (1988-2003) and Real Estate Information Center, GH Bank (2004 – present)

Conducted by : Research and Information Services Department (as of December 2, 2010)

Share of new housing loans issued 1988 – 2011 (3Q)



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Thai housing loan markets in 2011

During 2011, commercial banks and financial institutions continued competing aggressively for new home mortgage loans.

The commercial banks competed by launching special low-interest rate post-flood housing loans, multi-purpose loans, as well as zero per cent interest rate promotions with fee waivers. Many financial institutions also used CSR strategies to promote their home loan products.

Housing loan practices 2011

■ Pricing tactics

Thai financial institutions used a wide variety of pricing tactics to gain an upper hand in acquiring specific home buyers. These included:

1. Zero per cent interest rates - three months to three years

GH Bank launched a government-promoted three year zero percent housing loan program early in 2011.

Later on, five commercial banks also launched three-to-ten month zero per cent interest rate loans. After the initial loan period, borrowers pay a special below MLR floating rate. When the special loan rates expire, the borrowers pay normal floating rates.

2. Short-term fixed interest rates (one to three years)

- Four commercial banks offered low one year fixed interest rates (2.50%-5.25%)
- Two years fixed interest rate: offered by four commercial banks (3.75% -5.50%)
- Three years fixed interest rate : three commercial banks offered (3.45% - 6.25%)
- After the initial terms, lower than MLR floating interest rates (MLR-0.25% - 1.75%) throughout the loan agreement

3. Special short-term fixed interest-rates for one to three years:

- Floating interest rates which are based on market interest rates can increase or decrease during the initial one to three years.
- All banks issued short-term fixed interest-rate loans for one to three years (mostly three years). Bank of Ayudhya issued loans with interest rates at MLR-2.60% for one year; and Kasikorn Bank MLR-1.75% for two years.

GH Bank issued three year loans with the following interest rates: first and second year, MLR - 2.00% and MLR - 1.00% for the third year; interest rate for subsequent years also based on MLR after initial term expires..

4. Two-year fixed and special floating interest rate loans

- Five banks issued fixed interest rate loans for the first year and lower special floating interest rates for the second year.
- GSB offered a 1.25% fixed interest rate for the first year followed by a special floating interest rate for the second year (MLR-2.00%). For the remaining term MLR-0.50%.

■ Installment payment calculation strategies

In calculating actual housing loan monthly mortgage payments, all banks in Thailand add a margin (usually about two percent) above the normal amortization rates as an added precaution to prevent “payment shocks” if interest rates suddenly rise. The banks used the following methods in 2011 to calculate actual monthly mortgage payments:

1. Twelve banks calculated actual monthly payments by using the MLR interest rate (or MRR) as a base and then adding

0.50% to 1.50%. The actual calculated monthly repayment rate was between 6.25% to 9.375%: (higher than the actual loan amortization interest rates by 1.00%-5.63%)

2. One bank used a determined interest rate of 7.75 percent to calculate monthly repayments. The calculated interest rate of 7.75 percent exceeded the actual interest rate of 4.85%
3. Five banks used the MLR interest rate to calculate monthly repayments. The MLR interest rates of 7.25%-9.20% were higher than actual interest rates of 2.625% - 6.61%.
4. Two insurance companies used the actual amortization rates to calculate monthly repayments.

■ Flexible installment payments

- Installment payments can be made monthly or bi-monthly.
- Equal payments or stepped payments
- Lower than normal payments in the first year



■ Housing loan products strategies

1. Product packages

- Some banks offered housing loans along with other products such as credit cards, personal loans and life insurance

2. Linking housing loans with deposits

- Several banks offer 0.50 percent interest rate discounts to borrowers that have made regular deposits for more than 12 months.

3. Welfare benefits housing loans

- GH Bank and several banks worked with the Government Pension Fund as well as public and private sector companies to offer 100 percent housing loans at concessionary rates.

4. Loans for professional groups

- Several banks issued special housing loans to high and stable income professional groups including physicians, lawyers and airline and pilots. These loans are usually high face-value loans with special interest rates.



5. Home repair loans

- After the 2011 floods, many banks offered low interest-rate home repair and renovation loans. The banks also offered short-term measures to help existing and new customers with loan payment suspensions from three to 12 months.

6. Loan to value ratios

- To compete in 2011, many banks increased loan to value ratios. Banks normally provided loan-to-value ratios of 80 to 90 per cent of appraisal value for housing loans and 70 to 85 per cent for condominium loans.

7. Loan fees

- Most banks lowered normal appraisal, loan-servicing and legal fees to compete for business.

8. Launching refinance campaigns

- To increase market share some banks launched housing loan refinancing campaigns.

■ New marketing innovations

In 2011, many commercial banks developed technological innovations to attract customers including linking data to numerous mobile networks. Customers could instantly access information on available loan products.

- Extending sales channels.

All banks increased their distribution channels during 2011 by expanding into call-center sales, internet, mobile services and direct sale agents.

- Speeding up loan approvals

Many banks always developed “automatic underwriting” “fast track loan” systems to provide speedier and more efficient services to home loan borrowers.

- Collaborating with business partners

Most banks developed deeper relationships with their business partners with the following strategies:

- Combining “pre-construction financing” and “post-construction financing”
- Offering special loan packages with zero per cent interest rate for more than 12 months in order to encourage customer decisions as well as decreasing customers’ expenses with many additional benefits.

They also worked closely with related organizations such as the Home Builders Association, department stores such as HomePro, Home Work, SCG, Robinson, CDC and Modernform to provide special benefits and discounts to customers.

- Sales promotions

Many banks worked with developers to use sales and gift promotions for items such as lucky draws for automobiles, gold, electronic appliances, digital cameras and mobile phones to promote home sales.

- Quality and service development

All banks are emphasizing their staff's ability to provide efficient and effective quality loan-services throughout the loan acquisition process. Loan staff are trained to be professional sales people.

- Home counseling center

Some banks have established "home counseling centers" to provide knowledge and advice on housing purchases,

renovations and how request housing loans through the internet.

- Events promotions

All banks conducted mass market promotional activities with business partners. These included the Houses and Condo Show, Thailand Smart Money and Money Expo.

- CSR initiatives

During the unprecedented 2111 floods, all banks enhanced their corporate images with numerous CSR activities.

The housing loan market will continue to be very competitive in 2012. Many banks will be adjusting their strategies to maintain existing customers, reach out to new customers and increase their market share.

