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Thai Authorities Take a Major Step to Resolve Property Loan Problems

Bank of Thailand

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ข่าวธนาคารแห่งประเทศไทย

สำนักข่าวการธนาคารแห่งประเทศไทย โทร. ๒๕๒๖๖๕๕

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“Thai Authorities Take a Major Step to Resolve Property Loan Problems”

To resolve property loan problems in Thai financial institutions, the Cabinet has approved the establishment of “Property Loan Management Organization (PLMO)” to purchase property loans with collateral from financial institutions for the purpose of managing and enhancing their value. The organization, which will be a public entity, will have a capital of 1 million baht appropriated from the budget. The working capital, up to 100 billion baht, will be funded by the issuing of government-guaranteed bonds for sale to general investors.

Property loans and collateral eligible for purchase by PLMO will be properties which are already in the process of development. The purchase price will be no higher than the fair market value of the collateral which will be reappraised by three independent evaluators. Financial institutions will be required to write off the difference between the sale price and the book value of the loan in accordance with the Bank of Thailand’s regulation. Furthermore, financial institutions selling the loans will have to guarantee a repayment of 50 percent of loan value sold to PLMO plus accrued interest.

Loans acquired by PLMO will be subject to renegotiation with the debtors and the loan originators. Debtors will still be subject to a market rate of interest but its cash flow burden will be reduced as a result of the loan restructuring. They will also be required to lower the retail selling price to more realistic levels. Any additional financing will be provided by the loan originators which, having sold the loan for cash, will have adequate liquidity to do so.

The organization will come under the supervision of the Ministry of Finance, and comprise 11 committee members with the Permanent Secretary of Finance as Chairman. The operation of the organization will be based on principle of transparency, as regards appraisal of collateral value, the purchase of loans, and financial reporting.

By sourcing the funds from the market, the measure is in line with the Government’s policy of maintaining strict fiscal and monetary discipline. Financial institutions’ non-performing loan will be reduced while the public that buy property units will be protected by the continuation of the projects.

The authorities are confident that this measure will positively strengthen the financial condition of the property sector while further strengthening the soundness of Thailand’s financial institutions.

Bank of Thailand
March 11, 1997

Guidelines for Establishment of Property Loan Management Organization (PLMO)

1. The Property Loan Management Organization (PLMO) will be established by a Royal Decree issued by virtue of the Act on Establishment of Government Organization B.E.2495 (1953).

2. PLMO will be established with registered capital of 1 million baht to be appropriated from the government budget. Its working capital, up to 100,000 million baht, will be mobilized through the sale of government-guaranteed bonds as approved by the cabinet. The bonds will be sold to general investors.

3. The objective of the PLMO is twofold :

(1) to provide a facility for financial institutions to unload their poor property sector loans from their balance sheet and

(2) to assist property developers in continuing with their investment projects via a restructuring of debt. In this process, financial institutions will sell the loan and collateral to the PLMO at a price no greater than the present market value of the collateral as appraised by three independent evaluators, or the outstanding loan amount, whichever is lower. However, financial institutions are required to issue a financial guarantee equivalent to 50 percent of the value of the loan sold to PLMO, plus accrued interest.

4. Financial institutions which have incurred losses from the sale of their loans to PLMO will be required to write off such losses in line with the regulation laid down by the Bank of Thailand. Financial institutions, however, may purchase back the loan at the same price.

5. This scheme will enable financial institutions to unload their poor quality assets while continue to look after their borrowers through additional credit and loan monitoring process. PLMO will not extend additional loans to the borrowers but will arrange for a restructuring of debt so that property developers will have a greater financial leeway to complete their projects.

6. PLMO's operating expenses will be borne by both financial institutions participating in the scheme and by the property developers whose loans have been transferred to PLMO.

a) Each participating financial institution will contribute an admission fee of 1 million baht;

b) A management fee of 0.2 percent per annum will be charged, to be shared equally between creditor banks and borrowers; and

c) The property developers whose loans have been transferred to PLMO will be required to pay a fee proportional to the loan amount on redemption unless the loans are repaid within the first year. Progressive "exit fee" will be charged thereafter to encourage a speedy resolution and recovery of the loans.

7. PLMO will arrange a debt restructuring based on market interest rate. Flexibility will be allowed for the payment of interest provided that property developers have a sound marketing plan and sale promotion strategies.

8. PLMO will be under the supervision of the Ministry of Finance through a committee comprising representatives from relevant government agencies and eminent experts, chaired by the permanent secretary of the Ministry of Finance. Operation of the PLMO will be based on the principles of transparency and disclosure with regard to the organization's financial statement, as well as criteria and procedures for the evaluation of assets.

9. In the process of administering the debtors and rehabilitating property projects, financial institutions selling the loans must extend cooperation to PLMO by seconding, free of charge, staff who are familiar with the case of specific borrowers, to work with the PLMO. Also, PLMO will neither engage in real estate development itself nor extend additional loans to borrowers.

Bank of Thailand
March 11, 1997