

Unofficial Translation

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Notification of the Bank of Thailand

No. SorKorSor2. 1/2563

Re: Regulations on Residential Mortgage Loans and Other Loans Related to Residential Mortgage Loans of Specialized Financial Institutions

1. Rationale

The Bank of Thailand has introduced the regulations on residential mortgage loans and other loans related to residential mortgage loans to enhance the credit underwriting standards of specialized financial institutions and prevent excessive household debt and price speculation in the real estate market by setting the limit for the loan-to-value (LTV) ratios as well as the capital requirements according to the LTV ratios.

After the introduction, the Bank of Thailand has continuously followed up on the impact on the public, real estate businesses, financial institutions, and specialized financial institutions and on the financial stability and found that signs of price speculation and imbalance in the real estate market have subsided in accordance with the regulation's objectives. In other words, (1) specialized financial institutions have more robust credit underwriting standards as reflected in decreased LTV ratios for second and subsequent residential mortgage loan contracts, (2) signs of price speculation have slowed down as reflected in the declining number of new loan accounts for second and subsequent residential mortgage loan contracts of specialized financial institutions, and (3) real estate businesses have slowed the openings of new projects. These adjustments will gradually help decrease outstanding supply and restore the residential market to its balance.

Therefore, to promote residential property ownership and first-time residential mortgage loan borrowers (first contract), the Bank of Thailand revises the

regulations on residential mortgage loans and other loans related to residential mortgage loans so that the customers are able to apply for additional loans related to residential mortgage loans and has increased the limit of LTV ratio for first residential mortgage loan contracts.

The Bank of Thailand strongly expects that specialized financial institutions will continue to place an emphasis on good credit underwriting standards, refrain from encouraging household over-indebtedness and not promote speculation in the real estate market. This is to collectively ensure the sustainable stability of the financial system.

2. Statutory Power

By virtue of Section 120/1 of the Financial Institution Business Act B.E. 2551 (2008) and its amendment, the Bank of Thailand, with the approval from the Ministry of Finance, hereby issues regulations as specified in this Notification on residential mortgage loans and other loans related to residential mortgage loans of specialized financial institutions for specialized financial institutions to comply with.

3. Scope of Application

This Notification shall apply to Government Savings Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Small and Medium Enterprise Development Bank of Thailand, Export-Import Bank of Thailand, Thai Credit Guarantee Corporation, and Secondary Mortgage Corporation.

4. Repealed Notifications and Circulars

Notification of the Bank of Thailand No. SorKorSor. 9/2562 Re: Regulations on Residential Mortgage Loans and Credits Related to Residential Mortgage Loans of Specialized Financial Institutions dated 4 March 2019.

5. Content

5.1 Definition

In this Notification,

“Specialized financial institution” means state-owned financial institutions established under specific legislations which consist of Government Savings Bank, Bank for Agriculture and Agricultural Cooperatives, Government Housing Bank, Small and Medium Enterprise Development Bank of Thailand, Export-Import Bank of Thailand, Thai Credit Guarantee Corporation, and Secondary Mortgage Corporation.

“Residential mortgage loans” means loans granted to individual debtors or groups of individuals for the purpose of acquiring a residential property, collateralised by such land and/or structures, including loans intended for purchasing land for residential construction, constructing residential properties, purchasing land with existing homes, acquiring condominiums, or purchasing buildings for residential use as well as loans for refinancing purposes.

“Other loans related to residential mortgage loans” means additional loans granted on top of existing residential mortgage loans, with such residential property held as collateral (top-up loans).

“Refinancing loans” means loans provided to debtors for the purpose of repaying existing residential mortgage loans.

5.2 Regulations

Specialized financial institutions must have robust risk management and administration systems in place for residential mortgage loans and top-up loans that are capable of effectively analysing and assessing risks, as well as ensuring that debtors utilise the loans in accordance with their intended purposes. Specialized financial institutions must comply with quantitative requirements, including the loan-to-value (LTV) ratios and the calculation of credit risk-weighted assets for capital adequacy purposes, as outlined below.

5.2.1 Calculation of the loan-to-value (LTV) ratio

The loan-to-value (LTV) ratio shall be calculated by specialized financial institutions using the formula: Loan (L) divided by the value of collateral (V) as follows:

(1) Loan (L) shall be calculated using the following amounts in the LTV ratio calculation

(1.1) First residential mortgage loans with collateral valued at less than 10 million baht including the outstanding loan balance plus accrued interest for residential mortgage loans.

(1.2) Refinancing loans and other loans apart from those in (1.1), including the outstanding loan balance plus accrued interest for residential mortgage loans and top-up loans.

Top-up loans as specified in (1.2) shall not include loans for the payment of non-life insurance premiums or life insurance premiums associated with residential mortgage loans, nor loans intended for business purposes. This exemption applies only when specialized financial institutions can clearly separate such loans from residential mortgage loans, and there must be a credit underwriting process and risk management similar to those for general business-related loans.

(2) Value of collateral (V) shall be determined based on the actual buying-selling price, excluding any costs for renovations or other expenses beyond the acquisition of the property.

In cases where specialized financial institutions provide refinancing loans or top-up loans after the initial loan, the value of collateral shall be based on the appraised value at the time of the credit underwriting.

In cases where specialized financial institutions provide loans for the construction of residential property on land owned by the debtor, the value of the collateral shall be determined by combining the appraised value of the land secured with the estimated construction costs at the time of the credit underwriting.

5.2.2 Limits of the Loan-to-Value (LTV) ratio

(1) The provision of residential mortgage loans and top-up loans must maintain a loan-to-value (LTV) ratio as specified in Article 5.2.1, which shall not exceed the limits set forth in the table below.

Characteristics of residential mortgage loan contract	Limit of LTV ratio
With collateral valued at less than 10 million baht	
First residential mortgage loan contract ¹	100 percent
Second residential mortgage loan contract	
- if the first mortgage has been paid for at least 2 years	90 percent
- if the first mortgage has been paid for less than 2 years	80 percent
Third and subsequent residential mortgage loan contracts	70 percent
With collateral valued at least 10 million baht	
First residential mortgage loan contract	90 percent
Second residential mortgage loan contract	80 percent
Third and subsequent residential mortgage loan contracts	70 percent
Construction of residential property on land owned by the debtor without debt obligation	100 percent

For top-up loans related to first residential mortgage loans with collateral valued at less than 10 million baht, the top-up loans shall not exceed 10 percent of the value of the collateral, as specified in Article 5.2.1 (2).

(2) The limits for refinancing loans or additional top-up loans after the refinancing loans must not exceed the outstanding balance of the original residential mortgage loan or the LTV ratio limits specified in the table in Article 5.2.2 (1), whichever is higher. However, for refinancing loans concerning first residential mortgage loans with collateral valued at less than 10 million baht, the total amount of residential mortgage loans combined with top-up loans must not exceed the outstanding balance of the original residential mortgage loan or the LTV ratio limit of 100 percent, whichever is higher.

(3) Specialized financial institutions shall use information from reliable sources when assessing the total number of residential mortgage loan contracts for each debtor.

5.2.3 The calculation of credit risk-weighted assets for capital adequacy purposes for residential mortgage loans and top-up loans shall be conducted using either the Standardized Approach (SA) or the Simplified Standardized Approach (SSA).

¹ Excluding top-up loans

The calculation of credit risk-weighted assets shall be as follows:

(1) Performing residential mortgage loans

(1.1) Residential mortgage loans with qualifications specified in (1.1.1) – (1.1.4) shall use the risk weight of 35 percent.

(1.1.1) be a loan for acquiring a residential property with the primary purpose of being used as the debtor's own residence.

(1.1.2) be a loan offered by specialized financial institutions that is secured by land and/or structures, including residential properties classified as condominiums, as the primary collateral.

(1.1.3) The specialized financial institution has complied with the regulations set by the Bank of Thailand regarding the policy statement on the appraisal of collateral and foreclosed property acquired through debt settlement, credit guarantees, or purchased through public auction by the specialized financial institution.

(1.1.4) The loan-to-value (LTV) ratio, as specified in Article 5.2.1, does not exceed the LTV ratio limit specified in Article 5.2.2.

(1.2) Residential mortgage loans that do not possess the qualifications specified in (1.1.1) – (1.1.3) shall use the following risk weight:

(1.2.1) Residential mortgage loans with retail debtor's qualifications specified in the Notification of the Bank of Thailand on regulations on the calculation of credit risk-weighted assets of specialized financial institutions shall use the risk weight of 75 percent.

(1.2.2) Residential mortgage loans without retail debtor's qualifications specified in the Notification of the Bank of Thailand on regulations on the calculation of credit risk-weighted assets for specialized financial institutions shall use the risk weight of 100 percent.

(2) For performing top-up loans related to performing residential mortgage loans, specialized financial institutions shall calculate credit risk-weighted assets by categorizing debtors as either retail or private business borrowers and assigning risk weights according to the Notification of the Bank of Thailand on regulations on the calculation of credit risk-weighted assets for specialized financial institutions.

(3) For non-performing residential mortgage loans and top-up loans related to non-performing residential mortgage loans, specialized financial institutions shall calculate credit risk-weighted assets using the risk weights specified in the Notification of the Bank of Thailand on regulations on the calculation of credit risk-weighted assets for specialized financial institutions.

In this regard, residential mortgage loans and top-up loans related to performing or non-performing loans shall refer to the definition of "non-performing debtor" as specified in the Notification of the Bank of Thailand on regulations on the calculation of credit risk-weighted assets for specialized financial institutions.

6. Transitional Provisions

6.1 For residential mortgage loans and top-up loans that debtors have entered into loan contracts before 1 April 2019 and residential mortgage loans and top-up loans that debtors have entered into sale and purchase agreements before 15 October 2018 and have entered into loan contracts from 1 April 2019 to 19 January 2020, specialized financial institutions are not required to comply with Article 5.2.3 (1), but are instead required to comply with the regulations specified in the Notification of the Bank of Thailand No. SorKorSor. 9/2559 Re: Regulations on the Calculation of the Credit Risk-Weighted Assets of Specialized Financial Institutions dated 11 October 2016.

6.2 For residential mortgage loans and top-up loans that debtors have entered into sale and purchase agreements before 15 October 2018 and have entered into loan contracts from 20 January 2020, specialized financial institutions shall calculate the LTV ratios from the outstanding loan balance plus accrued interest of

residential mortgage loans² (Loan: L) divided by actual buying-selling price (Value: V) and the residential mortgage loan amount must not exceed the value of collateral. Moreover, in determining the credit risk weight, specialized financial institutions shall comply with the Notification of the Bank of Thailand No. SorKorSor. 9/2559 Re: Regulations on the Calculation of the Credit Risk-Weighted Assets of Specialized Financial Institutions dated 11 October 2016.

6.3 In cases where specialized financial institutions need to follow the government's policy, resulting in their inability to comply with any part of the regulations or have welfare loans which already have agreement signing before 15 October 2018, specialized financial institutions shall submit a request for relaxation to the Bank of Thailand on a specific basis.

7. Effective Date

This Notification shall come into force for residential mortgage loans and other loans related to residential mortgage loans from 20 January 2020 onwards.

Announced on 30 January 2020

(Veerathai Santiprabhob)

Governor

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² Specialized financial institutions shall not combine top-up loans in the calculation of LTV ratio for residential mortgage loans and top-up loans of debtors who have entered into sale and purchase agreements for the residential properties before 15th October 2018.

Table of Summary of Risk Weight for Residential Mortgage Loans and Top-up Loans for Specialized Financial Institutions that Choose the Standardised Approach (SA) or Simplified Standardised Approach (SSA) for the Calculation of Credit Risk-Weighted Assets

For performing debtors and residential mortgage loans with all qualifications specified in Article 5.2.3 (1.1.1) – 5.2.3 (1.1.3)¹

Type of residential property	Limit of LTV ratio	Risk weight (RW)		
		Residential Mortgage Loans	Top-up Loans ²	
Collateral with buying-selling price of less than 10 million baht				
<u>First</u> residential mortgage loan contract	No more than 100 percent	35 percent	(1) Retail debtors, 75 percent (2) Not retail debtors - Without business purpose, 100 percent - With business purpose, categorised as private business debtors, 20-150 percent (using SA) and 100 percent (using SSA)	
<u>Second</u> residential mortgage loan - if the first mortgage has been paid for at least 2 years - if the first mortgage has been paid for less than 2 years	No more than 90 percent No more than 80 percent	35 percent		
<u>Third and subsequent</u> residential mortgage loan contract	No more than 70 percent			
Collateral with buying-selling price of at least 10 million baht				
<u>First</u> residential mortgage loan	No more than 90 percent	35 percent		
<u>Second</u> residential mortgage loan	No more than 80 percent			
<u>Third and subsequent</u> residential mortgage loan contract	No more than 70 percent			
Construction of residential property on land owned by the debtor without debt obligation	No more than 100 percent	35 percent		

¹ Performing debtors and residential mortgage loans without any of the qualifications specified in Article 5.2.3 (1.1.1) – 5.2.3 (1.1.3) shall use the risk weight of 75 percent if possessing qualifications for retail debtors, or 100 percent if lacking qualifications for retail debtors.

² For top-up loans for first residential mortgage loan contracts with collateral valued less than 10 million baht which are given credit of no more than 10 percent of the value of the collateral, the risk weight shall be referred to this box.