



INTELLECT RESOURCES  
MANAGEMENT W.L.L.

# **EVOLUTION OF SOME STATE-OWNED HOUSING FINANCIAL INSTITUTIONS**

- **GLOBAL EXPERIENCE**
- **GLOBAL STATISTICS**
- **GLOBAL LESSONS**

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October 2020



## **GLOBAL EXPERIENCE**

### **INDIA – HOUSING DEVELOPMENT FINANCE CORPORATION (HDFC):**

Started with govt support but grew from a small institution to a diverse financial entity through aggressive market funding programs and varied business activities through private shareholdings/market-oriented risk-reward model (Slide 1)

### **ARGENTINA – BANCO HIPOTECARIO SA (BHSA)**

Old Mortgage Bank (Estd 1800's). as state-owned institution due to market discipline not being imposed and asset-liability mismatch & high NPL (67%), leading to severe crisis. In 91-93 was restructured into a wholesale, 2<sup>nd</sup> tier bank. But, later in 1996 was privatized (46%), and allowed level playing field with other banks (including direct lending). Now, a healthy financial institution.

### **SOUTH KOREA – KOOKMIN BANK**

Korea Housing Bank (KHB) evolved from a social housing lender to a full mortgage & commercial bank (by merging with Kookmin Bank). It is also privatized in the process, with govt holdings being just about 10%. The bank, even now, continues to handle the social loans for a service fee, but the funding is done by NFH under fiscal support. It is one of the largest banks in Korea and a healthy financial institution. (Slide 3)

### **CHILEAN BANK – BANCOESTADO (BE)**

Bancoestado was a medium sized housing bank until 2004. It has grown substantially since then (almost 500%) based on strategic diversification. Its operating are characterized by full autonomy from its shareholder (the state) and strict imposition of commercial principles, together with universal banking. Now, a very healthy and large financial institution. (Slide 4)

### **THAILAND BANK – GOVT HOUSING BANK (GHB)**

GHB established in 1953, was a state-owned bank with dual purpose: Housing Development and Housing Finance until 1973. Following several losses in development role (combination of development and financing leading to such problems in many countries), in 1973 GHB mandate focused on housing finance, with new agency National Housing Authority being given the housing development role. Thereafter, GHB a roaring success story based on a new strategy of being a commercially run institution, abiding by good governance rules, focusing on quality of portfolio and posting positive results. (Slide 5)

## **GLOBAL STATISTICS**

### **PRIVATIZATION OF STATE-OWNED FINANCIAL INSTITUTIONS**

This has been a normal occurrence world-wide to address problems arising from state ownership and break down risk-reward framework/market discipline. Example list of 159 state owned banks between 1994-2004. (Slide 6)

## **GLOBAL LESSONS**

Some key observations from the examples:

- Commercial operations/market-based norms are the basis for growth/survival
- Diversification/universal banking are important features in success



- Privatization often helps in achieving market discipline/funding000... and privatization of state-owned banks has been done often
- Where significant state ownership exists, success requires
  - Full operational autonomy to the institution/market discipline
  - Separation of social from commercial activities
  - Separation of project developmental activities from banking/financing activities.

### SLIDE 1

#### INDIA: HOUSING DEVELOPMENT FINANCE LTD (HDFC)

- **Beginnings**  
Started as a company in 1997; sponsored by public financial institutions (industrial credit & invt corporation of India/Investment Corpo of India); and external loan guaranteed by the govt.
- **Funding**  
Soon began to increase funding through direct tapping of equity and debt markets (without recourse to govt).....
  - **Equity market:** E.G. 1986 (Equity shares at par); 1990 (Equity shares at premium); 1995 (Convertible preference shares); 1997 (Non-convertible preference shares)
  - **Bond market:** E.G. 1983/84/87 (First few public bond issues); 2003 (Secured nonconvertible debentures-Pvt placement); 2004 (Fist Pvt co. to raise Rs 10,000 million in single tranche)
  - **Deposits:** 1979 (Launched certificate of deposit); 1980 (Launched loan linked deposit scheme); 1985 (Launched home savings plan); 1993 (Launched esay savings i.e. flexi savings); JV with LIC/STD life scotland for tapping pension funds.
- **Business Initiatives**
  - 1977 (Began long term housing loans mainly to low/middle class borrowers); 1980 (Modest HSG finance to developers) ; 1993 (JV with general electric, USA for home consumer finance); 1995 (Promoted infrastructure leasing & financial services along with govt fin. Institutions); 1995 (Real estate consultancy along with Colliers Jardine, Singapore); 1997 (Project development company along govt of Rajashtan/IL & FS); 200 (mobile internet banking to HDC customers along with Cellular service provider, Orange); 2000 (Home equity loan for meeting educational, medical exps etc.); 2000 (individual credit rating agency along with State Bank of India); 2006 (JV with Apollo Hospitals for setting up super speciality hospitals); 2006 (JV with India Post Office);
- **Ratings**  
1997 (LAAA, MAAA and A1+ rating for its bonds, FDS and short-term debt instruments respectively from ICRA); 2000 (CRISIL-AAA rating to the company’s RS 1,195-CRORE bond programme); 2003 (2<sup>nd</sup> best managed FI in Asia – FOX – Pitt Kelton survey); 2008 (HDFC – Top Indian company in financial services sector for the dun & Bradstreet – American Express Corporate Awards 2007)
- **Internationalization**  
1997 (1<sup>st</sup> foreign branch – Dubai); 1997 (HDFC along with International Finance Corporation Found HSG Fin. Co. in Bangladesh); 2006 (London operations launched); 200 (Bahrain office started)
- **Growth**

Particulars	2012 (Rs. Cr)	2001 (Rs. Cr)
Total Income	17,534	2,382
Reported Profit After Tax	4,123	474



EPS	28	4
Dividend (%)	550	125
Equity	295	120
Reserve & Surplus	18,722	2,251
Non-Promoter Holding (%)	100	100
PATM (%)	23.78	<u>19.93</u>

## SLIDE 2

### ARGENTINE – BANCO HIPOSTECARIO S A (BHSA)

#### 1. HISTORY

(some content extracted from Pg 269 – Hsg Finance in emerging mkts):

- **The Crisis:**  
Banco Hipotecario Nacional was a state-owned housing bank operating since 1800s. in 1980it was main provider for housing mortgage loans. **Its sources of finance were from public sector entities and loans from the Central bank.** The bank had large mismatch between short term liabilities and 25 year maturity assets. This and other recovery policies resulted in drastic portfolio performance with 67% NPL, leading to severe crisis.
- **The Reaction:**  
The Central Bank forced the bank to move out of direct lending, and it became a wholesale lender of loans to corresponded banks. 1991-93 it was deeply restructured, set out underwriting standards for the unsalaried, developed original construction financing structures, entered into partnership with housing agencies in charge of low-cost housing etc. In 96, following a law that established securitization framework, it pioneers MBS issuance.
- **The Later Development – Privatization:**  
In 1996, pursuant to a general privatization policy, 46% of the bank – Banco Hipotecario-SA (BHSA) was sold to private investors in 1999. The privatization law allowed direct lending again.
- **Post Privatization Performance:**  
BHSA reovered and it was the first Latin American company to issue AAA mortgage securities in the US. IT was also able to withstand and quickly recover from the 2001-2 crisis.

#### 2. PRESENT STATUS:

Banco Hipotecario S.A. is an important commercial bank in Argentina and the nation’s premier mortgage lender. It offers loans for the purchase, construction, or improvement of residential properties, repayment of mortgages originally designed for home purchases, and home equity. With about 1,900 employees it is the thirteen largest among all banks in Argentina by assets and lending portfolio. The company operates over 50 branches nationwide.

#### Key Statistics:

Total Assets	US\$ 2.84 billion (2011)
Revenue	US\$ 330 Million (2011)
Company Size	1890 employees (2011)
Website	<a href="http://www.hipotecario.com.ar">www.hipotecario.com.ar</a>

#### Highlights (twelve-month period results)

- **Total net income for the year was Ps 195.3 million, compared to Ps 197.8 million of 2009**
- Net financial margin for the year was Ps. 535.2 million and Ps. 581.2 for 2009
- Aggregated net income from services of Ps 291.5 million was 23.9% higher than last 2009
- **Loans to the private sector increased 31.7% YoY.**



- **Deposits a 30.7% YoY growth.**
- **NPL ratio decreased from 4.8% to 2.7% in the year** while coverage ration increased from 99.7% yo 115.9% in the same period.
- Equity ratio 27.3%, higher than the 24.3% of December 2010
- **BH ranks fifth in terms of net worth, seventh in terms of household financing, and thirteen in term of assets in the local financial system.**

(source: Banco Hipotecario S.A.)

## SLIDE

### SOUTH KOREA – KOOKMIN BANK

#### 1. HISTORY

(some content extracted from Pg 273 – Finance in emerging mkts);

- **The Background:**

In 1966 Korea Housing Bank (KHB) was created, as the only mortgage lender. Until 1970s it also handled the social operations. But, in 1970s the Govt agreed to separate operations from the sheet of KHB and to finance the NHF from explicit fiscal resources. KHB was paid a fee to service the loans.

Similarly, H&CB was launched in 1967 as Korea Housing Finance Corporation, a government-owned vehicle to provide long-term, low-interest housing loan and mortgages to South Korea's low and middle-income population. The new company sold its first housing bonds to institutional investors in 1968, then, at the beginning of 1969, launched a Housing Lottery as a means of raising funds to support its mortgage pool.

Also in 1969, the South Korean government passed new legislation, changing The mortgage lender's name to Korea Housing Bank. Under the legislation creating the new entity, Korea Housing Bank (KHB) was given the exclusive right to offer mortgages of more than ten years in South Korea. On the other hand, KHB's focus was restricted almost entirely on the housing market, and no more than 20 percent of its lending portfolio was allowed to come from non-mortgage sources.

KHB continued to develop over the next decade, issuing a new National Housing Bond in 1973. Three years later, KHB began its first banking operation, forming the Worker's Asset Formation Savings Deposit. In 1978, a new deposit fund was added, the Housing Subscription Tie Deposit. That was followed in 1980 with the creation of the Long-Term Housing Installment Savings Deposit. One year later, the Korean government created a new National Housing Fund, which was placed under KHB auspices.

The 1980 saw KHB achieve further growth, including its first international expansion with the formation of a Tokyo branch in 1984. KHB also launched its own credit card service that year. The following year, it acquired Joo Eun Mutual Savings & Finance Co, taking on more of the feature of a full-service bank while retaining its primary focus on mortgage lending. The bank continued to extend its range of services through the end of the decade, adding international banking in 1998 and trust banking in 1989.

- **The Commercialization /Privatization:**

In 1997, the charter changed from a specialized bank to a commercial bank, and it became Korea Housing & Commercial Bank (KHCB). The new charter however committed KHCB to make at least 50% loans to housing.

Korea Housing Bank's privatization began in 1995 with the revision of its founding legislation. At the beginning of 1996, KHB changed its name, becoming Housing & Commercial Bank of Korea, or H&CB. The bank then took a listing on the Korea Stock Exchange. The following year, H&CB's



privatization was complete as it now converted its status to that of a commercial bank. Part of H&CB's privatization process, however, involved the loss of its monopoly on long-term mortgage lending. The company quickly slipped into its own economic crisis and began losing money.

But, by 1999, H&CB was once again churning out profits and growing strongly, winning a number of awards, including Best Domestic Commercial Bank in Korea from *Finance Asia*. At the beginning of the new century, the revitalized H&CB now claimed the number three spot among Korea's top banks. It was also the country's most profitable, boasting a return on equity of 22 percent.

In 2001, KHCB merged with Kookmin Bank..... it was a combination of the largest mortgage provider (KHCB) merging with the largest deposit taker (Kookmin). It continues to be (even now after its merger with Kookmin Bank) the sole servicer of the NHF social lending.

In order to strengthen itself, KHCB also got in strategic investors... and was the first Korean bank to be listed on the New York stock exchange. At the time of the merger in 2011, only about 10% was held by the Govt, with about 70% being held by foreign investors.

## 2. PRESENT STATUS

KB Financial Group, holding company for Kookmin Bank, provides a commercial and consumer banking services in South Korea. It offers assets management and life insurance through alliances with Netherlands-based ING Group. The banks' lending activities mainly entail residential mortgages, home equity loans, consumer loans, and corporate loans. Kookmin Banks has more than 1,200 branches in its home country, where it claims some 26 million customers, or about half of the population of South Korea. The bank provides corporate services such as foreign exchange and securities trading from offices at home and abroad in New York, London, Hong Kong, Tokyo, and Auckland, New Zealand.

### **Key numbers for fiscal year ending December, 2011:**

**Sales \$15, 364.2 M**

**One year growth: 6.2%**

**Net Income: \$2,045.8M**

## SLIDE 4 CHILE-BANCOESTADO (BE)

### 1. HISTORY

(some content extracted from Pg 261 – Finance in emerging mkts);

- **The Background:**

BE was created in 1953 through the merger of 4 state-owned Savings & Loans institutions. The bank's customer profiles emphasis the low and middle income groups.

### 2. COMMERCIALIZATION/GROWTH

The bank aims to be a universal bank, although the focus is on mortgages. Accordingly, in 1995 BE started an ambitious modernization process and strategic diversification, with resounding success.... Assets: 1995 – CLP 4510 million, have grown to Assets 2012 – CLP – 21014 million.

The bank 's 2 key success factors are (pg. 261):

- BE has always been operated on commercial principles. The shareholder, the State, imposes a strict profitability requirement (taxes/dividends). The bank is managed with full autonomy vis-à-vis its sole shareholder.
- It has a large savings-collection network resulting in attracting a large population of small savers.



### 3. **PRESENT POSITION**

It is the third largest bank in the country with Ch\$20.525 trillion (US\$ 42.24 billion) in assets as of March 31, 2012. Its primary mission is to promote home ownership, home finance and banking services to low- and middle-income individuals as well as to develop banking service for small and medium-sized enterprises.

Accordingly, BE maintain a much higher proportion of residential mortgage portfolio than its private sector peers (39% versus average of 25%). As a universal bank, BE offers current, checking and savings accounts, consumer, commercial and mortgage loans, credit and debit cards, online banking, investments, treasury services, trade finance, asset management, securities brokerage, insurance, leasing and more.

**It extends both Govt guaranteed mortgages and Non-Guaranteed/Commercial Mortgages. Govt guaranteed mortgages are 39% of the portfolio, whilst Commercial ones are 61% of the portfolio.**

It is highly rated bank in South America.

## SLIDE 5

### THAILAND – GOVERNMENT HOUSING BANK (GHB)

#### 1. HISTORY

- **The Background:**

GHB was established in 1953. With dual purpose: housing finance and housing development. Initially, the Bank's main objective was to develop housing projects, and sell them the homes via hire-purchase contracts. The Banks housing projects were developed as Complete Housing Communities with environmental friendly architecture and landscapes which eventually become prototypes for other housing projects.

During the first two decades, GH Bank's efforts were limited because of funding. The Bank primarily assembled land, built homes that were sold through hire purchases contracts and provided housing finance loans during this period 7,000 families were able to acquire their homes. However, GH bank suffered seven years of operational losses from 1953-1959. The bank earned a profit in 1960 but suffered losses in 1961. The bank also suffered a crisis triggered by losses on its developer loans.

- **The Reaction:**

As a result of the developer losses, the activity of housing development was transferred to National Housing Authority in 1973.

*(Other Commentators: Pg 350 of Housing Finance Policy (World Bank Publication) "In some countries, state entities combines retail housing loans services with real estate developer functions. Examples can be found in Thailand, Indonesia, Algeria, Egypt, Rwanda and Pakistan). This is a dangerous combination, notably when projects are driven by some political consideration because the lack of independent assessment of development market risks and the absence of a specific capital buffer that a prudent lender requires from developers"*

Subsequently, the bank operated as a financial institution providing both short terms loans for housing project developers (pre-construction financing) and long term home mortgage loan for the general public ( post-construction financing). During 1976-1979 bank's loans increased from Bt 381 million to Bt 2,031 million because of the housing market's growth.

GH bank began offering various deposits account services similar to other commercial banks on January 2, 1974. These deposit accounts served as in important source of fund mobilization, and allowed GH bank to become a full-service bank offering both deposit and loan services.





- **The Later Development/Method**

The GHB was recapitalized and assigned a new strategy. It became a commercially run institution, which abides by good governance rules, focuses on the quality of its portfolio, and posts positive results.

GHB mobilized funding through its deposit base. It provides loans at below market conditions by concentrating on providing lower income borrowers with the benefits it enjoys as an SHB: lower spread on bond issues, absence of dividend, and for a long time, lesser capital requirement.

It sponsored market infrastructure development through involvement in inception of retails credit bureau, a real estate information centre, and a mortgage insurance scheme. In mid-2006, it issued an 1 billion USD MBS, one of the largest securitization transaction Asia.

Present structure is as follows:

Housing Development (mainly large-scale developments): Through National Housing Authority

Housing Finance: Through GHB

Housing Secondary Market: Through Secondary Market Corporation

## 2. **PRESENT STATUS**

GHB is a leading financial institution

Key Statistics:

- 77 branches
- 2,399 Employees (as of June 2010)
- Mortgage Loans Outstanding – Bt 647, 337 million (Dec 2009)
- Number of Borrowers – 1,303,336 (Dec 2009)
- 36.3 percent of all individuals residential housing loans in Thailand (2009\_

## **HISTORY OF PRIVATIZATION OF SOME STATE-OWNED BANKS AROUND THE WORLD**

(Extract from IMF Working paper WP/05/10 on state-owned banks: stability, privatization and growth by Michael Andrews – 2005)

Country	Bank	Year of Privatization
Argentina	Chaco	1994
Argentina	Entre Rios	1994
Argentina	Formosa	1995
Argentina	Misiones	1995
Argentina	Rio Negro	1996
Argentina	Salta	1996
Argentina	Tucuman	1996
Argentina	San Luis	1996
Argentina	Santiago del Estero	1996
Argentina	San Juana	1996
Argentina	Mendoza	1996
Argentina	Municipal de Tucuman	1997
Argentina	Jujuy	1998
Argentina	Santa Fe	1998
Argentina	Santa Cruz	1998
Argentina	Chaco	1994
Brazil	Baneb	1999





<b>Country</b>	<b>Bank</b>	<b>Year of Privatization</b>
Brazil	Credireal	1997
Brazil	Banestado	2000
Brazil	Bandepe	1998
Brazil	Banerj	1997
Brazil	Minas Gerais	1998
Cameron	Standard Chartered Bank	1994
Chile	19 banks	1975
Congo, Democratic Republic	Union Zairoise/de Banques	1995
Cote d'Ivoire	BIAO	2000
Cote d'Ivoire	BICICI	2002
Croatia	Dubrovacka Bank	1994
Croatia	Dubrovacka Bank	2002
Croatia	Privedna Banka	2000
Croatia	Rijeka Banka	2000
Croatia	Splitska Banka	2000
Croatia	Zagrabacka Banka	1996
Denmark	Girobank	1993
Finland	Savings Bank of Finland	1994
Ghana	Merchant Bank	1995
Ghana	Social Security Bank Limited	1995
Ghana	National Investment Bank	2000
Ghana	Ghana Commercial bank	1996
Guyana	National Bank of Industry and Commerce	1997
Hungary	Budapest Bank	1995
Hungary	Foreign Trade Bank	1996
Hungary	Magyar Hitel Bank	1995-96
Hungary	National Savings and Commercial Bank (OTP)	1997
Hungary	Kereskedelmi and Hitel Bank	1997
Hungary	Postabank	
Hungary	Realbank	
Indonesia	Bank Central Asia	2001
Indonesia	Bank Niaga	2002
Indonesia	Bank Danamon	2003
Israel	Bank Hapoalim	1993
Italy	Banca Commerciale Italiana	1981
Italy	Mediobanca	1988
Italy	Credito Italiano	1991
Italy	Banca Commerciale Italiana	1994
Italy	Istituto Mobilaire Italian spa	1994



<b>Country</b>	<b>Bank</b>	<b>Year of Privatization</b>
Jamaica	National Commercial Bank	1986
Kenya	Kenya Commercial Bank Ltd	1988
Korea	Citizens National Bank (Kookmin)	1994
Korea	Korea First Bank	1999
Korea	Cheju Bank	2002
Korea	Seoul Bank	2002
Latvia	Unibank	1995
Latvia	Savings Bank	1997
Lebanon	Banque Nationale du Developpement de l'Industrie et du Tourisme	1994
Lebanon	Credit Lebanais	1997
Lithuania	Development Bank	2000
Lithuania	Savings Bank	2001
Lithuania	Agricultural Bank	2002
Macedonia, former Yugoslav Republic of	Stopanska Bank	2000
Madagascar	BNI-Credit Lyonnais Madagascar	1991
Madagascar	National Bank of Commerce (BFV)	1998
Madagascar	Bank of Rural Development (BTM)	1999
Mexico	Banamex	1991
Mexico	Bancomer	1991
Mexico	Bancreser	1991
Mexico	Banorie	1991
Mexico	Banpais	1991
Mexico	BCII	1991
Mexico	Confia	1991
Mexico	Cremi	1991
Mexico	Mercantil	1991
Mexico	Atlantico	1992
Mexico	Bancen	1992
Mexico	Banoro	1992
Mexico	Banorte	1992
Mexico	Comermex	1992
Mexico	Internacional	1992
Mexico	Promex	1992
Mexico	Serfin	1992
Mexico	Somex	1992
Mozambique	Banco Comercial de Mocambique SARL	1996



Country	Bank	Year of Privatization
Mozambique	Banco Popular de Desenvolvimento SA	1997
Mozambique	Banco Austral	2002
Nigeria	FSB International Bank	1992
Nigeria	Afribank Nigeria	1993
Nigeria	Savannah Bank of Nigeria	1993
Nigeria	Union Bank of Nigeria	1993
Nigeria	United Bank of Nigeria	1993
Nigeria	First Bank of Nigeria	1993
Norway	Christiania Bank	1993
Norway	Den norske Bank	1994
Norway	Fokus Bank	1995
Peru	Banco Popular	1993
Peru	Interbank	1994
Peru	Banco Continental	1995
Philippines	Philippine National Bank	1989
Portugal	Banco Totta e Acores	1989
Portugal	Banco Portugues do Atlantico (BPA)	1990
Portugal	Banco Espirito Santo e Comercial de Lisboa (Besci)	1991
Portugal	Banc Internacional do Funchal (Banif)	1992
Portugal	Credito Predial Portogues	1992
Portugal	Banco Pinto & Sotto Mayor	1994
Portugal	Banco de Fomento e exterior	1995
Romania	Romanian Bank Development	1999
Romania	Banco Post	1999
Romania	Banca Agricola	2001
Romania	Romania Commercial Bank	2004
Senegal	Banque Senegalo – Tunisienne	1999
Spain	Argentaria	1993
Sweden	Stadshypotek AB	1994
Sweden	Nordbanken	1995
Tanzania	CRBD (1196) Limited	1996
Tanzania	National Bank of Commerce (1997)	2000
Turkey	Bank Express	2002
Turkey	Demirbank	2001
Turkey	Sumerbank	2001
Turkey	Sitebank	2001
Turkey	Tarisbank	2002
Ukraine	Bank Ukraina	1993-94



<b>Country</b>	<b>Bank</b>	<b>Year of Privatization</b>
Ukraine	Prominvestbank	1993-94
Ukraine	Urksotsbank	1993-94
Uganda	Uganda Commercial Bank	1997
Uganda	Cooperative Bank limited	1999
Uganda	Uganda Commercial Bank	2002
Venezuela	Banco de Venezuela	1996
Venezuela	Banco Consolidado	1996
Venezuela	Banco Tequendama	1996
Venezuela	Banco Popular	1996
Venezuela	Banco Andino	1996
Venezuela	Banco Republica	1996