

## Press Release

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### **TRIS Rating Believes Macro Prudential Policies Proposed By "BOT" Will Negatively Impact Operating Performances of "Property Developers" in Short Term**

TRIS Rating believes the macro prudential policies proposed by the Bank of Thailand (BOT), aimed at improving the underwriting standards for mortgage loans and reducing the widespread practice of searching for higher yields by speculating in the property market will benefit homebuyers, property developers, and banks in the long term. However, the measures could negatively impact the operating performance of property developers in the short term.

Currently, the BOT uses risk weight guidelines to control mortgage lending. The risk weight assigned to mortgage loans is only 35% if the loan to value ratio (LTV) is less than 95% for low-rise residential property units, 90% for high-rise units, and 80% for housing units priced at more than Bt10 million. If the LTV ratio exceeds these guidelines, the risk weight will increase to 75%. Top-up loans are not included in the calculation of the LTV ratio at present. A top-up loan is a loan made to a property buyer on top of the mortgage loan to buyer obtains. In practice, top-up loans are often bundled together with mortgage loans, meaning the money lent to a property buyer can exceed the LTV ratio cap.

Under the new measures proposed by the BOT, LTV limits will be applied to mortgage loans instead of the risk weight guidelines. In addition, the loan value used to calculate the LTV ratio will include mortgage loans and any top-up loans linked to the same collateral. The LTV limits for mortgage loans on the first housing unit purchased by a homebuyer will remain the same as the measures currently in effect. However, the LTV limit will fall to 80% for mortgage loans on the second and subsequent units acquired by the same purchasers. This lower level matches the LTV ratio for housing units priced at more than Bt10 million.

In TRIS Rating's view, the measure that will affect buyers and property developers the most is the lowering of the LTV limit to 80% for purchases of second and subsequent homes priced at less than Bt10 million per unit. Generally, residential property developers require down payments of 10%-15% for housing units priced below Bt10 million. If the LTV ratio drops to 80%, homebuyers would have to put up 5%-10% more of the purchase price when they make a down payment.

Based on the portfolio of 21 property developers rated by TRIS Rating, housing units priced at below Bt10million per unit comprised around 90%-95% in terms of the number of units available for sales or 75%-80% in terms of value. Data from the BOT shows the number of new mortgage loans used to purchase a second home or additional housing units accounts for around 20% of new mortgage loans provided by commercial banks. Thus, if 70% of home buyers borrow money to make the purchase, then, around 15% of home buyers would be the buyers that purchase the second housing units priced at less than Bt10 million, and they would be directly affected by the proposed measures. The impact in terms of value will be slightly lower, around 10%-12% of total sales.

We hold the view that the property developers in the condominium segment will feel the bite from the change more than developers that focus on the low-rise housing segment. The measures will have the greater effect on developers that have more projects that will be completed in the next one to two years. These developers may face some delays when transferring the finished units to buyers because domestic buyers may have difficulty securing a mortgage. Delays in transfers will reduce the revenues that developers are able to recognize in the next couple years.

The reduction in the LTV ratio should discourage speculation in the property market. If a speculator must make a larger down payment while a property is still under construction, the returns to the speculator will fall. The speculator also faces a greater risk that they will lose money if they cannot sell the units to another buyer before construction is complete and the units are ready to be transferred to the buyers.

We anticipate rated developers will shift their focus towards foreign buyers, especially Chinese investors. Currently, several developers require foreign buyers to make down payments of 20% or more. Greater demand from foreign investors may push condominium prices above the justified levels based on the fundamentals of the Thai economy. This may make housing units, especially in the central business district zone, less affordable for local buyers.

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