

Credit for the Program to Provide the Low-Income Earners in HCMC with Housing

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In recent years, urban housing has developed well but it only met the need of high-income earners. Improving the housing for low-income earners is a difficult problem for such developing countries as Vietnam because it depends on the personal income. So housing development programs require the government to tap all possible sources of finance. That is why participation of banking institutions in these programs is of great importance.

1. Criteria for deciding low- and medium-income earners

In Vietnam, researchers estimated that basic needs of an ordinary person cost VND210,000 a month and this was the minimum wage set by law. In early 2003, it was fixed at VND290,000 a month. The HCMC Poverty Alleviation Board is using the level of VND250,000 a month as a criteria for deciding whether a person is poor or not. Recent studies, however, suggested a level of US\$30 (about VND450,000) a month which was formerly applied by the ADB to Southeast Asian countries.

The Ordinance 35/2001/PL-UBTVQH 10 relating to the income tax fixes the taxable income at VND3 million a month. This means that those who make from VND250,000 to VND3 million a month could be seen as low- and medium-income earners. To get access to bank loans, potential borrowers should have stable incomes that ensure their creditworthiness, therefore low- and medium-income earners could be seen as those who have income varying from VND450,000 to VND3 million per month.

2. Some facts about living standard and housing development in HCMC

According to 1999 statistics, the stock of housing in HCMC included 1,007,021 houses and flats with a total area of 52,711,338 square meters that housed 1,805,265 families. Although the authorities develop and upgrade from 2.0 to 2.5 million square meters of housing the demand



still exceeds the supply. The housing area per capita has risen to 12 square meters but most of them were sub-standard. Many residential areas were built before 1965 and in the brink of ruin. In comparison with the previous decade, the housing standard has been improved, especially in terms of strongly-built housing.

Statistics gathered in 2000 show that the average income of a household in HCMC was VND40,482,000 per year, or VND3,373,000 per month, equaling VND726,000 a month per capita. In comparison with 1995, this average income rose by 40% over five years without taking the inflation rate into account.

As for the personal spending, it rose by 15% in the same period, to VND394,000 a month. This increase was lower than the increase in the personal income. Of this personal spending, 64% was spent on food; 9% on housing; 7% on clothing; 7% on learning and books; 6% on health care; 2% on travel and 5% on other needs.

Just because the personal income rose faster than the personal spending, the average saving in 2000 amounted to VND18,481,000 a year by a household; or VND3,977,000 a

year by a person. However, there was 3.5% of families that failed to make ends meet and 1% that made no saving.

These facts show that the personal income as on the increase, and as a result, the demand for better housing is also higher. This demand becomes even greater when the flows of migrants to HCMC increased. According to a rough estimate, there is a demand for some 100,000 houses; 50,000 from workers in the public sector and the rest from those in other sectors, and most of them are low- and medium-income earners.

3. A rough estimate of the supply of credit for housing in HCMC

At present, many commercial banks are supplying credits for housing that are repayable by installments. The following are results of our survey:

- The ACB Real Estate Supermarket established in 2000 is the first marketplace of this kind in HCMC. The Supermarket operated well since its establishment and satisfied part of the market demand when the real estate market revived after a long time of freezing. The ACB, through the Supermarket, not only provides a trading floor for sellers and buyers,

but also supplies advice and loans of various classes. In 2000, over 1,300 houses that were worth over 148,000 SJC gold taels plus some VND216 billion were sold on this market. The housing loan from banks rose steadily over years: from VND2,778.74 million in 1998 to VND41,793.63 million in 1999 and VND223,504.9 million in 2000. This means that the ACB succeeded in identifying the need and meeting it. However, the housing loan accounted for only a small proportion in the total bank loan.

- As for the East Asia Bank, its personal loan proved to be the most popular service in the past few years. It started to supply low-interest consumption loans to workers in the public sector, and cooperated with consumer producers and suppliers to supply hire-purchase programs. Until recently, it also supplied housing loan although this kind accounted for only 2% of its total lending.

- In 2002, the total lending by the Phương Đông Bank increased remarkably because it succeeded in changing the structure of loan supplied, from serving state-owned companies to serving small and medium companies along with private persons. Of the personal loans, the housing ones also account for a small percentage.

Generally, the proper attention has been paid by commercial banks to housing loans but this service is still of small scale and only attractive to high-income earners. At present, this service is popular among customers of banks and finance companies that have links with real estate companies.

Although the authorities have started many programs to build and sell houses to low-income earners (most of them are workers in the public sector), the role of commercial banks wasn't usually mentioned when these programs were discussed on newspapers. Why?

Most officials from banks said that there was no programs that required banks to supply housing loans to low- and medium-income earners, while banks have to observe regulations on the supply of loans, that is, the banks should make sure that borrowers have ability to repay debt before making decision on loans.

In April 2002, the SBV warned commercial banks against supplying loans to customers who invested in real estate and lessons from the price fever in the real estate market in 1995-97 also made banks reluctant to supply such loans.

4. Problems with the supply of housing loans to low-income earners

Most bank managers are aware that there is a great demand for housing credit but they meet with a lot of difficulties in extending this service.

- Most banks have no program to offer such loans because they consider it as costly and risky when they have to deal with strict regulations on interest rate, debt collection, sources of long- and medium-term deposit, handling of mortgaged assets, etc. In addition, such loans depend a lot on fluctuations in the sensitive market for real estate when speculators outnumber real buyers and regulatory legislation is still lacking.

- The average price of housing is still beyond reach of low-income earners. Houses sold at reasonable prices are usually ones with no title

deeds that aren't eligible to bank loans. Procedures for securing certificates of land use right and house ownership are time-consuming. Low-income earners find it hard to buy flats in apartment houses in resettlement and housing programs for workers in the public sector. They can't get access to formal credit when they have no way to demonstrate their sources of income and have no asset to mortgage to banks. In addition, programs to supply housing loan always require potential borrowers to secure from 50% to 60% of the sum needed for buying the house and such a percentage is usually beyond their reach.

5. Suggested measures to develop housing loans to low-income earners

- Beefing up the town and country planning with a view to limiting speculation in real estate.

- State-owned housing development companies should play the leading role in increasing the supply of housing by carrying out programs to build houses sold on installment basis.

- Encouraging commercial banks and finance companies to engage in the real estate market by revising regulations on credit supply and handling of mortgaged assets, thereby lowering the market price of real estate.

- Establishing trading centers for real estate and commission for evaluation of real estate in order to stabilize the market prices, thereby discouraging the speculation in real estate.

- Introducing better measures to mobilize long- and medium-term deposits in order to help banks engage more actively in supplying the housing loans. ■

