



Technical Assistance Report

Project Number: 43564-01
Regional–Capacity Development Technical Assistance (R-CDTA)
December 2009

Housing Finance Capacity Development in South and Southeast Asia

ABBREVIATIONS

ADB	–	Asian Development Bank
COBP	–	country operations business plan
CSP	–	country strategy and program
DMC	–	developing member country
GDP	–	gross domestic product
LTV	–	loan-to-value
PRC	–	People's Republic of China
PSOD	–	Private Sector Operations Department
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Regional–Capacity development technical assistance (R-CDTA)
Targeting Classification	–	General intervention
Sector (subsector)	–	Finance (housing finance, banking systems)
Themes (subthemes)	–	Capacity development (institutional development), economic growth (widening access to markets and economic opportunities, promoting economic efficiency and enabling business environment), private sector development (private sector investment)
Location Impact	–	Urban

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. Strategy 2020, the long-term strategic framework of the Asian Development Bank (ADB),¹ underscores the importance of expanding private sector operations, supporting good governance and capacity development, and providing knowledge solutions to its clients in order to meet the challenges in the coming years and to ultimately alleviate poverty in Asia and the Pacific. One of the core ADB specializations that will underpin these drivers of change is development of the finance sector. Development of this sector is critical to ensuring access to funds needed to sustain private sector-led growth and to channeling the region's savings into productive investments. In this regard, ADB will also seek to build the capacity of financial institutions by introducing international best practices.

2. The regional capacity development technical assistance (TA) for Housing Finance Capacity Development in South and Southeast Asia² aims to strengthen capacity of financial institutions engaged in mortgage and home improvement lending in South and Southeast Asia. This will enable banks to expand their customer base and move down-market to lower income groups, while maintaining sound risk management practices and underwriting and servicing standards. The TA will be used in conjunction with ADB Private Sector Operations Department (PSOD) projects in support of the housing finance sector and is, therefore, expected to enhance the development impact of these projects.

3. The TA is also linked to a number of country strategies and country operations business plans (COBPs) through development of the finance sector. Mortgage lending can comprise a large portion of a bank's portfolio. Therefore, it is important to develop best practices at an early stage to ensure prudent growth of this sector. The TA supports ADB's existing public sector operations work in the housing sector. Appendix 1 provides an overview of some of the specific country strategies and COBPs with direct links to the TA, as well as examples of links to public sector operations in the housing sector.

II. ISSUES

4. **Current state of housing in Asia.** Creating a strong and healthy housing market is essential for a country's socioeconomic development and for generating the resources necessary for reducing poverty (please refer to Appendix 2 for an overview of the development impact of the housing sector). However, emerging Asia's housing markets are quite underdeveloped. The mortgage debt-to-gross domestic product (GDP) ratio, a measure of the depth of a country's housing market, is well below 15% in a number of countries. This statistic is particularly striking when compared with other emerging market regions. For example, the average mortgage debt-to-GDP ratio in South Asia is 2.9%, and in East Asia and the Pacific it is only 1.5%. This compares with a mortgage debt-to-GDP ratio of 7% in Latin America and the Caribbean, and 11% in sub-Saharan Africa.³

5. As noted in Strategy 2020, demographic changes are placing strains on many urban areas in Asia and the Pacific in the form of congestion, pollution, and poverty. As a result, there are serious shortages of adequate housing throughout the region. Moreover, there is a crowding-out phenomenon, whereby people of higher-income brackets are living in housing

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

² The TA first appeared in the business opportunities section of ADB's website on 15 December 2009.

³ M. Safavian. 2009. Financing Homes Global Data and Report. World Bank presentation to *South Asia Regional Housing Finance Conference*. Jakarta (27–29 May).

which could be utilized by people from lower-income brackets. In India, for example, it was estimated in 2007 that there was a shortage of 24.71 million housing units in urban areas and 47.43 million units in rural areas.⁴ In Indonesia, the government estimates that there is a current backlog of 8.1 million houses with a need for approximately 800,000 additional units on an annual basis.⁵ Urban centers are expected to increasingly become strained as the pace of urbanization accelerates. By 2013, the urbanization rate in Asia is expected to increase to 45%, with 1.45 billion people living in urban areas.⁶

6. Housing systems are complex with a number of interrelated components that impact the degree to which these markets function. In Asia, factors that have hindered the development of housing markets at various times include unstable macroeconomic environments, low stocks of housing, weak legal and regulatory frameworks, lack of long-term sources of funding for mortgages, and limited knowledge of the housing sector and mortgage lending. While the economies of many Asian countries are growing and there have been efforts by governments to strengthen the legal and regulatory frameworks pertaining to housing finance and real estate markets, there are a number of issues that remain to be addressed if Asia is to meet its current and future housing requirements.

7. The lack of longer-term funding sources coupled with a limited understanding of housing finance causes financial institutions to restrict mortgage lending in terms of volumes and market segments. This results in a lack of understanding of a particular market's needs, as well as untapped opportunities. Because of lenders' conservative practices, and due to the difficulties in obtaining standard credit information, financial institutions often do not have the capacity and tools to assess creditworthiness of individuals, particularly those who are self-employed, which serves to reinforce higher-income lending practices that are currently notable in many markets throughout Asia. Given a large informal labor market in Asia, mortgages remain inaccessible to the majority of the population. Please refer to Appendix 2 for an overview of mortgage products and practices in Asia.

III. THE TECHNICAL ASSISTANCE

8. The TA is focused on strengthening housing finance knowledge and practices of financial institutions engaged in mortgage and home improvement lending in South and Southeast Asia. This is critical to enable banks to expand their customer base and move down-market, while maintaining strong risk management, underwriting, and servicing standards. Specifically, the TA will focus on the following aspects of housing finance: market segmentation and product development, loan origination, underwriting,⁷ pricing, servicing,⁸ and risk management. Training will also be an important component of this TA.

9. ADB PSOD has started to provide financial support for banks and housing finance companies to develop the housing markets in ADB's developing member countries (DMCs); however, from discussions with numerous financial institutions, it has become increasingly evident that enhanced knowledge of housing finance is needed in order for banks to expand

⁴ Government of India. 2007. 11th Five Year Plan Working Committee. Delhi.

⁵ Government of Indonesia, Ministry of Housing. 2008. Indonesia: Decent Housing Programs. Presentation to ADB. Jakarta. 3 September.

⁶ *United Nations Department of Economic and Social Affairs*. 2004. World Urbanization Prospects: The 2003 Revision. New York.

⁷ Underwriting refers to the assessment of collateral securing the mortgage loan, repayment capacity of the borrower, and the borrower's credit history.

⁸ Servicing typically entails the collection of mortgage payments, accounting of financial transactions, collecting past due accounts, foreclosing on seriously delinquent properties, and disposing of foreclosed real estate.

their activities in this sector, and through this contribute to the development of the housing sector. Many of the banks that have been consulted by ADB PSOD restrict mortgage lending to existing or higher-end customers and offer limited products, often in terms of tenor and loan-to-value (LTV) ratios. The proposed TA will assist these banks in building their capacity to better assess potential mortgage borrowers, price loans according to risk and product, and develop stronger risk management and servicing standards and thus contribute to the development of the housing sector. The TA will be used in conjunction with ADB PSOD projects in the housing finance sector.

10. **Indicative target countries.** Based on ADB's assessment of the region, it is expected that the TA will be utilized first in Indonesia, the Philippines, and Viet Nam. During fact-finding discussions, banks in these countries have noted the growing demand for mortgages from potential borrowers. A study conducted by the ING Group, placed the Philippines as having the highest rate of urban population growth from 2003-2013 at about 37%, with Viet Nam at approximately 30%, and Indonesia at just under 25%.⁹ Additionally, these countries are undergoing rapid rates of household formation. The same study placed Indonesia, the Philippines, and Viet Nam as countries with the highest household formation rates in emerging Asia. Finally, the regulatory frameworks in these countries also support mortgage lending, specifically with respect to foreclosure laws.

11. Although these countries will initially be targeted, the TA has been designed with a broader scope incorporating all countries in South and Southeast Asia. This will allow for changes in ADB's pipeline as demand shifts and/or improvements in legal and regulatory frameworks occur during 2010 through 2012. For instance, the TA may provide support for lesser-developed countries, such as Bangladesh, where ADB has received initial inquiries of interest for housing finance projects from banks participating in the ADB Trade Finance Facility Program and where commercial banks are starting to offer mortgage finance.

12. **Participating financial institutions.** The financial institutions that will participate in the TA will be selected at implementation stage. The criterion for selection will be based first on the financial institutions' perceived demand for mortgage lending and its willingness to engage in the TA program as a vehicle to assist the financial institution in expanding its customer base and strengthening its mortgage lending practices. This will require a level of commitment from the bank at both senior management and operational levels, particularly because ADB will need access to its documentation related to its mortgage lending practices and engage in dialogue with the bank to tailor the program. The regulatory and legal framework pertaining to mortgage finance will also need to be strong enough to enable financial institutions to lend. The prospective financial institution will be assessed in terms of its relative level of development with respect to underwriting and servicing standards, pricing practices, and current product offerings. Finally, since the TA will be paired with ADB financial support, the prospective financial institutions will need to satisfy ADB's normal credit criteria.

A. Impact and Outcome

13. The impact of the proposed TA will be expanded housing markets and improved standards of living. This will be particularly important given the current housing crisis and the increasing strains on cities in Asia and the Pacific.

14. The outcome of the TA will be increased effectiveness of financial institutions engaged in housing finance in financial institutions in South and Southeast Asia. Having a sound mortgage

⁹ ING Real Estate. 2005. *Asia Pacific Real Estate Investment Strategy*.

lending framework and best practices across finance sectors is of critical importance, as was seen in the United States subprime crisis when mortgage underwriting standards deteriorated. (For specific outcome targets, refer to the design and monitoring framework in Appendix 3.)

B. Methodology and Key Activities

15. The TA is expected to have the following four outputs on an ongoing basis starting in 2010.

1. Core Mortgage Lending Program

16. Despite differences among countries in terms of stages of housing finance sector and economic development, a generic core program will be developed that will outline the basic principles and practices of housing finance. The core mortgage lending program will consist of a standard mortgage lending manual with complementary training modules. This will ensure that a comprehensive approach to mortgage lending is implemented, which will support the development of sound, primary mortgage markets in ADB DMCs. The core manual will include, but not be limited to, the following topics: (i) a general overview of mortgage lending; (ii) mortgage products commonly used in international markets; (iii) mortgage processing forms and documents; and (iv) operating procedures including underwriting, closing and funding, servicing, loan pricing and treasury functions, and risk management. Basic training components will be developed that will support these topics.

2. Market Mapping

17. A market mapping exercise will be undertaken, the objective of which will be to aid financial institutions in understanding the markets in which they operate. This will help them to develop strategies to better target their customers and to also provide feedback to their regulators in terms of systemic bottlenecks. This phase will include a field visit to each country that will focus on the existing legal and regulatory frameworks (including titling and foreclosure processes). A housing market analysis will also be performed that will address demographic trends, affordability of homes, housing supply, customer demand and knowledge of mortgage products, and products offered in the market.

3. Adaptation of Core Mortgage Manual and Training for Specific Financial Institution

18. As noted, the core mortgage manual that will be developed will be specifically tailored for each private sector financial institution that ADB supports, and will be based, in part, on the market mapping exercise. This will increase the sustainability of the impact of the proposed TA. A gap analysis will be performed for each financial institution to assess current mortgage lending practices as compared with international mortgage lending practices. The financial institution's existing mortgage lending manual, if present, will be reviewed. This exercise is important as it will provide DMC banks with specific knowledge of where they lack capacity and enable ADB to provide capacity development that is tailored and specific to individual banks.

4. Training

19. Training is an important component of the proposed TA. By providing training to the financial institutions ADB will better ensure that core mortgage lending principles are understood and that the mortgage lending manual becomes a real resource for staff. The training program

envisaged uses a two-pronged approach: (i) providing training to senior management, and (ii) providing training to middle management and operational staff. For middle management and operational staff, a train-the-trainer approach will be used to ensure sustainability over the medium and long term. ADB will also offer a refresher course after 6 months following the original training program to help reinforce the concepts presented.

20. The plans for the TA cover a multiyear period. It is expected that six financial institutions will participate in the TA in no less than four countries. Table 1 provides a summary of the projected outputs for 2010–2012.

Table 1: Projected Outputs for the Technical Assistance Program from 2010–2012

Item	2010	2011	2012
Core Mortgage Lending Program	1	0	0
Market mapping	2	1	1
Adaptation of core program for financial institutions	2	2	2
Training sessions (including refresher courses)	4	6	6

Source: Asian Development Bank estimates.

C. Cost and Financing

21. The total cost of the TA is estimated at \$1.3 million equivalent. It is proposed that ADB provide \$1.3 million equivalent on a grant basis from the Technical Assistance Special Fund (TASF—other sources). The funds will cover remuneration, travel, and per diem for international consultants; training and program-related materials; and miscellaneous expenses. (Appendix 4 has the cost estimates and financing plan).

D. Implementation Arrangements

22. ADB will be the executing agency for the TA, and ADB PSOD will administer it. Disbursements under the TA will be made in accordance with the ADB Technical Assistance Disbursement Handbook.¹⁰ The TA will require 55.5 person-months of work. ADB, in accordance with its *Guidelines on the Use of Consultants* (2007, as amended from time to time), will engage a consulting firm for five international consultants. The proposed selection method and weighting for quality- and cost-based selection is 80% quality and 20% cost, and it will be done on a full technical proposal basis. Outline terms of reference for consultants are in Appendix 5.

23. The TA will be implemented over a period of 3 years, beginning in January 2010 and ending in December 2012.

IV. THE PRESIDENT'S DECISION

24. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,300,000 on a grant basis for the Housing Finance Capacity Development in South and Southeast Asia, and hereby reports this action to the Board.

¹⁰ ADB. 2008. *Technical Assistance Disbursement Handbook*. Manila.

LINKS TO COUNTRY STRATEGIES AND PROGRAMS AND COUNTRY OPERATIONS BUSINESS PLANS

1. The regional capacity development technical assistance (TA) for Housing Finance Capacity Development in South and Southeast Asia project supports three of the five drivers of change cited in the long-term strategic framework 2008–2020 (Strategy 2020)¹ of the Asian Development Bank (ADB): (i) expanding private sector development and private sector operations by enabling financial institutions to develop tools necessary to increase mortgage lending thereby also increasing employment in ancillary private sector industries, (ii) supporting good governance and capacity development by improving transparency of bank lending practices and providing input and training on basic mortgage lending practices, and (iii) providing knowledge solutions through the introduction of mortgage lending best practices and product development. The TA also focuses on the core ADB specialization in Strategy 2020 of supporting finance sector development. Specifically, the TA will help to address financial institution development through capacity building, which will help to channel savings more productively in South and Southeast Asia. Moreover, the TA will also help to develop larger volumes of standardized mortgages and build more robust data, which are needed to develop the capital markets.

2. The proposed TA is also linked to a number of country strategies and country operations business plans (COBPs) through development of the finance sector. Mortgage lending can comprise a large portion of a bank's portfolio; thus, it is important to develop best practices at an early stage of development. A review of these documents underscores the importance of capacity development in financial institutions to enable ADB to meet its development objectives in this sector. The TA supports and is complementary to ADB public sector operations in the housing finance sector. A summary of selected links to country strategies and COBPs is presented below, as well as complementary public sector work done in the housing finance sector.

A. Bangladesh

3. ADB's key objective for Bangladesh, as articulated in the country partnership strategy (CPS) 2006–2010,² is to help the country address critical constraints on broad-based economic growth, social development, and good governance. The strategy, implemented in conjunction with the World Bank, the Department for International Development of the United Kingdom, and the Government of Japan, focuses specifically on the following: (i) improving the investment climate for private-sector-led growth and employment, (ii) advancing the social development agenda to empower the poor, and (iii) addressing key governance issues on a sector and thematic basis. ADB private sector activities will complement those of the public sector and catalyze private sector investment in support of key infrastructure projects and the finance sector. As set forth in the COBP 2009–2011,³ ADB will continue to support investment and policy and institutional reforms in the energy, transport, education, and integrated urban infrastructure sectors. ADB will also continue to support small and medium-sized enterprises (SMEs) and the finance sector. In reviewing ADB's past programs and projects in Bangladesh, the CPS notes that ADB's efforts have been most successful and sustained when they have

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

² ADB. 2009. *Country Partnership Strategy Midterm Review: Bangladesh, 2006–2010*. Manila.

³ ADB. 2008. *Country Operations Business Plan: Bangladesh, 2009–2011*. Manila.

been combined with capacity building. Thus, building country capacity and a skills base among government agencies and local experts will be the focus in the coming years.

4. The TA directly supports the CPS and COBP through the combination of capacity building and finance sector development. The TA will enhance the capabilities of local banks in terms of identifying gaps of individual developing member country (DMC) bank's financial and technical capacity that would inhibit the provision of housing finance. Additionally, through training, the TA will aim to strengthen the capacity of bank personnel in terms of basic mortgage lending principles. The TA will also support the goals of improving the investment climate for private-sector-led growth and employment. By increasing the housing finance capacity of local banks, the climate for the private sector will be improved with respect to attracting foreign bank interest and also in expanding activities in ancillary businesses related to housing finance. This will directly support job creation in Bangladesh

B. Indonesia

5. Noting the Government of Indonesia's goals of supporting pro-poor, sustainable economic growth and promoting social development, the current country strategy and program (CSP) for Indonesia seeks to directly address the constraints to achieving these goals.⁴ Past constraints that the CSP highlights include an adverse investment climate, poor physical infrastructure, an underdeveloped finance sector, weak decentralized capacities, poor public sector and natural resource management, and low development spending. Based on these constraints, ADB is focusing on the following activities: (i) improving infrastructure and related services with increased public and private sector investment, (ii) deepening the finance sector, (iii) improving decentralization with greater regional spending, (iv) accelerating the achievement of Millennium Development Goals, and (v) strengthening environment and natural resources management.

6. The TA will support ADB's strategic and business objectives in Indonesia. First, it develops capacity among Indonesian banks to receive funding for housing finance. Second, by laying the foundations for a strong primary mortgage market, it helps to strengthen and deepen the finance sector by helping banks to expand their product offerings to a wider customer base on a prudent basis. Additionally, by creating a solid foundation for the primary mortgage market, capital markets activity is likely to be broadened because a higher volume of mortgages with robust data will be created. Finally, the TA addresses one of the constraints on pro-poor economic growth—job creation—through the ability for banks to engage in greater mortgage lending activities, which leads then to the generation of more employment through ancillary industries.

7. ADB Southeast Asia Department has provided technical assistance for the development of the secondary mortgage markets in Indonesia. Technical assistance has been provided to establish the Secondary Mortgage Facility which seeks to deepen the capital markets and to provide an alternative source of long-term funding for mortgages.⁵ The TA will support the Secondary Mortgage Facility by creating higher volumes of better-quality mortgages originated on a standardized basis, which can be then securitized.

⁴ ADB. 2006. *Country Strategy and Program: Indonesia, 2006–2009*. Manila.

⁵ ADB. 2005. *Technical Assistance to the Republic of Indonesia for the Secondary Mortgage Facility*. Manila.

C. Philippines

8. The country strategy for the Philippines, as embodied in the 2009–2010 COBP⁶ and which extends the 2005–2007 CSP,⁷ focuses on supporting fiscal consolidation, improving the investment climate in the Philippines, and accelerating attainment of the Millennium Development Goals.⁸ Three of the five core areas of Strategy 2020 are incorporated into the current country strategy: support for environment and infrastructure and development of the finance sector. Private sector operations will target infrastructure and finance sector initiatives. Infrastructure projects are expected to include power and transmission, renewable energy, water supply, and port operations, among others. As laid out in the COBP, in the finance sector ADB will seek opportunities to (i) provide loans to domestic banks or nonbank finance companies to support microfinance and SMEs, (ii) support asset-backed securitizations, and (iii) provide partial credit guarantees to support lending to SMEs.

9. The TA supports the strategic plans and objectives of the COBP and the CSP in numerous ways. First, the CSP notes that ADB public and private sector operations will reinforce fiscal consolidation by (i) placing less demand on public resources, (ii) reducing pressure on public debt by allowing the government access to foreign and local funds at competitive spreads and for longer maturities, and (iii) reducing the need for public spending by "crowding in" private participation. By enabling ADB DMCs and, in this case, the Philippines to build their absorptive capacity for housing finance, public resources will be under less pressure because financing for projects in a number of sectors, particularly in times of economic crisis when sources of funds become constrained, can be supported through nongovernment funding. Enhancing the ability of banks in the Philippines to engage in mortgage finance activities will have the effect of crowding-in the private sector, which is a stated objective of the CSP. Finally, enabling banks to broaden their housing finance activities will help to directly support an increase in asset-backed securitizations by creating stronger mortgage products offered on a standardized basis.

D. Viet Nam

10. The CSP 2007–2010⁹ for Viet Nam noted that the country made significant strides in reducing poverty through business-led growth in economic output and employment, primarily generated by the private sector, along with government-led targeted poverty reduction interventions. The CSP aims to help the government continue to reduce poverty in Viet Nam to 10%–11% of households by 2010 through (i) pro-poor business-led economic growth, (ii) social equity and balanced development, and (iii) environment protection and management. In doing so, the CSP emphasizes the need to create an enabling environment for private sector development and stronger links between ADB public and private sector operations.

11. The COBP 2009–2011¹⁰ supports the aims of the current CSP and outlines the specific areas in which ADB will provide support. In nonsovereign operations, ADB will seek to mobilize private financing for infrastructure development, capital markets, and the finance sector, including housing finance. The TA directly supports finance sector development and the expansion of housing finance activities in Viet Nam. The TA will enable financial institutions to

⁶ ADB. 2009. *Country Operations Business Plan: Philippines, 2010–2012*. Manila.

⁷ ADB. 2005. *Country Strategy and Program: Philippines, 2005–2007*. Manila.

⁸ The Philippines CSP for 2005–2007 is the current CSP. In 2008, ADB and the government agreed to extend the CSP through the COBP for 2009–2010.

⁹ ADB. 2006. *Country Strategy and Program: Viet Nam, 2007–2010*. Manila.

¹⁰ ADB. 2008. *Country Operations Business Plan: Viet Nam, 2009–2011*. Manila.

increase their capacity to expand mortgage lending and to do so on an international best-practice basis. This will also reduce systemic risk to the banking system through stronger underwriting and servicing practices, portfolio risk management, and better product development. Creating a solid foundation of mortgages originated on a standardized basis and supported by good data will also help to prepare Viet Nam for secondary mortgage market opportunities, thus stimulating the capital markets. Finally, the TA supports pro-poor, private-sector-led growth through the generation of employment related to housing sector investments.

12. In Viet Nam, ADB Southeast Asia Department has also provided technical assistance for the legal and regulatory framework surrounding secured transactions, which also helped to establish a national registry for such transactions.¹¹ As a result of ADB's work in this area, as well as other efforts to improve the legal and regulatory environment for property and mortgages, banks have started providing mortgage loans in Viet Nam. The TA will enable these banks to expand their mortgage lending to a wider customer base.

¹¹ ADB. 2002. *Technical Assistance to the Socialist Republic of Viet Nam for Legal System Development up to Year 2010 and Capacity Building for Secured Transactions Registration*. Manila.

Overview of Developmental Impact of the Housing Sector and Current Mortgage Products and Practices in Asia

1. Creating a strong and healthy housing market is essential for a country's socioeconomic development and for generating the resources necessary for reducing poverty. At its most fundamental level, housing construction and finance provides access to shelter or improves existing living conditions. Importantly, it also serves as a vehicle to create one of the most critical sources of capital or equity for an individual or family—capital which can then be used to support future income-earning activities. More broadly, housing has a significant role in a country's economy through activities related to the following sectors: construction, real estate, and retail consumer goods. In India, for example, it is estimated that there are backward and forward links to more than 269 industries.¹ Thus, the ability for investments in housing to generate activities in related sectors is enormous. Developing a sound housing market is also important for the finance sector. Mortgage loans comprise a large portion of banks' portfolios in developed markets and can provide long-term assets for banks. Additionally, a solid primary mortgage market can form the basis for capital markets activities through securitization.

2. Given the substantial number of links to other sectors supporting investments in housing, the impact on employment can also be significant.² For mortgage financing, which is just one component of the broader housing market, it has been estimated that approximately 20% of a country's total employment can be generated through this activity.³ Housing activities can also provide significant employment opportunities for low-income households. This is particularly true for the construction sector because it is relatively labor intensive with a high demand for semiskilled and unskilled labor. Additionally, housing construction has strong backward links with the building materials industry, which then generates a demand for locally produced materials, thus creating additional employment opportunities. Because of the strong links to other sectors and the use of semiskilled and unskilled labor, it has been concluded by the United Nations Centre for Human Settlements that housing construction offers more employment opportunities, both directly and indirectly, than any other sector of the construction industry, and that improving housing therefore enhances productivity, especially that of the poor.⁴

3. In developing Asian countries, conventional housing construction practices support large numbers of semiskilled and unskilled workers. In India, a study in 2004 confirmed that for every Rs10 million spent on housing construction, 22,000 unskilled person-days and 23,000 skilled or semiskilled person-days of work is generated.⁵ Many contractors employ these workers on a subcontractual or informal basis. A study by the International Labour Organization of construction practices noted that in the Philippines 85% of the wage and salaried workers in the construction industry in 2000 were temporary workers or project-based employees.

4. Because of the high development impact in terms of finance sector and capital markets development, contribution to economic growth through pro-poor job creation, and improvement

¹ R. Karnad. 2008. Channeling Financial Flows for Adequate and Affordable Housing, Housing Development Finance Corporation. Presentation given to the *International Federation of Surveyors Working Week*. Stockholm (17 June).

² In India, the housing sector is the second-largest employment generator in the country.

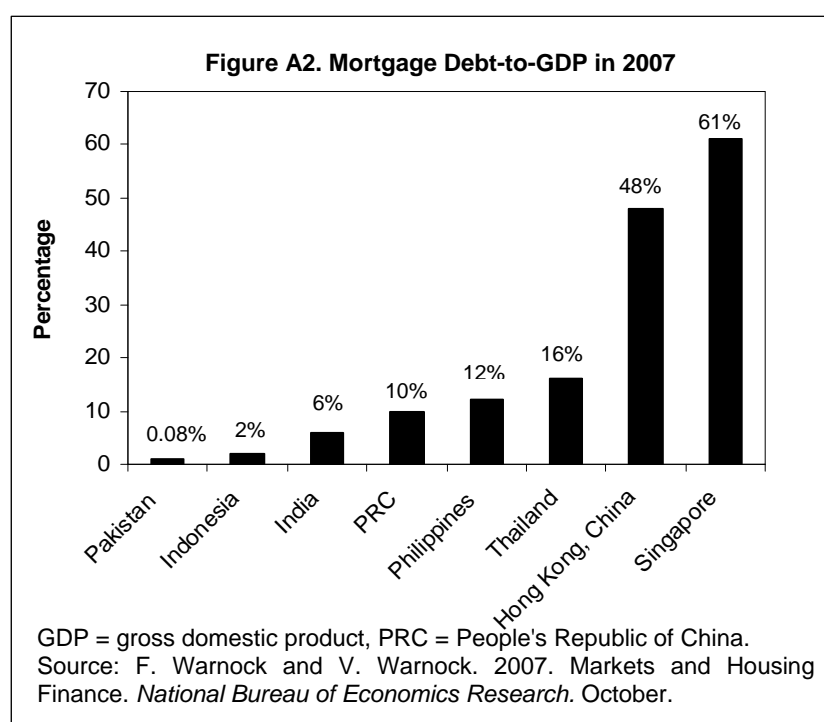
³ Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V. , <http://www.fmo.nl/>

⁴ United Nations Centre for Human Settlements (Habitat). 2006. *Improving Income and Housing: Employment Generation in Low-Income Settlements*. HS/189/89 E. Kenya (2 January).

⁵ A. Laskar and C.V.R. Murty. 2004. *Challenges Before Construction Industry in India*. Kanpur: Department of Civil Engineering, Indian Institute of Technology.

in living standards, multilateral and bilateral banks have prioritized development of the housing sector. For instance, for the Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V., development of the housing sector is one of its three institutional key priorities. The International Finance Corporation has also prioritized this sector and has provided over \$2.5 billion in financing to over 75 financial institutions engaged in housing from 2002 through 2008.⁶ The Overseas Private Investment Corporation has also placed a high priority on projects in this sector and has approved over \$1.6 billion in financing and insurance from the inception of its program through 2007.⁷ However, much work needs to be done to improve access to housing, particularly in Asia.

5. Emerging Asia's housing markets are underdeveloped, which has led to severe housing shortages, particularly in urban areas. As noted in Figure 1, the mortgage debt-to-gross domestic product (GDP) ratio, a measure of the depth of a country's housing market, is well below 15% in a number of countries in Asia.



6. Additionally, mortgage products in South and Southeast Asia are also quite conservative. Short-tenor loans are typical, which make monthly payments unaffordable for the average borrower. Additionally, low loan-to-value (LTV) ratio products are prevalent. Lower LTV ratio products mean that the average borrower would need to provide more than 30% of the value of the home and property, which is simply not achievable for most people. Because of funding sources, mortgage loans also tend to be offered at variable rates, which is not preferable for most people because of the uncertainty of monthly payments (Table 1 gives an overview of the typical products offered in these regions). As a point of comparison, many banks in developed

⁶ International Finance Corporation. 2009. *Housing Finance*. [http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/HF-Trifolds/\\$FILE/HF-Trifolds.pdf](http://www.ifc.org/ifcext/gfm.nsf/AttachmentsByTitle/HF-Trifolds/$FILE/HF-Trifolds.pdf).

⁷ Overseas Private Investment Corporation. 2007. *OPIC Supports Housing and Mortgage Finance*. <http://www.opic.gov/sites/default/files/docs/housing030207.pdf>.

countries offer mortgages with terms of 25 years or greater, and roughly half have predominantly fixed-rate products.

Table A2: Mortgage Loan Characteristics in Emerging Asia

Country	Average Tenor (years)	Average LTV Ratio (%)	Loan Type
Bangladesh	Less than 15	50–70	Variable
India	Maximum of 20	74	Fixed and Variable
Indonesia	8–15	75–80	Variable
Pakistan	12	45	Variable
Philippines	Maximum of 10–20	70	Fixed and Variable

LTV = loan-to-value.

^a CRISIL Ratings. 2009. *Retail Assets – A Case for Caution, Not Alarm*. Mumbai.

^b K. Shehzad. 2009. Pakistan Housing Finance Sector, Challenges and Opportunities. Presentation to *South Asia Regional Housing Finance Conference*. Jakarta (27–29 May).

Sources: CRISIL^a Ratings, Francis & Veronica Warnock, State Bank of Pakistan^b

7. Mortgage loans in many Asian countries are also not typically priced according to product or borrower risks. For instance, many banks in the People's Republic of China (PRC) do not price loans in terms of costs and risks. This practice in the PRC, as well as in other Asian countries, is due to a number of factors: (i) a limited target market that is typically restricted to existing and higher-income borrowers, (ii) a lack of information on the creditworthiness of prospective borrowers that enables the determination of the probability of default, and (iii) an inability to determine the performance of certain product offerings with respect to probability of default. Banks, therefore, do not often adequately price for risk. Additionally, they do not capitalize on wider borrower segments that may be willing to obtain mortgage loans at higher rates, if available.

8. Finally, servicing standards and complementary technology systems are weak in many financial institutions in Asia. Good servicing practices are essential for loan administration, risk management and reporting, and loss mitigation and recovery. Strong servicing practices enable financial institutions to analyze their portfolios to determine customer, geographic, and product trends. Banks can then better manage risk, noting problems early, or also test the performance of new products. By having strong servicing systems, banks can also help to keep borrowers in their homes through loss mitigation and loan modifications. Finally, developing a well-diversified and strong portfolio supported by good data enables a bank to become prepared to securitize loans and obtain long-term funding from the capital markets.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Impact Expanded housing markets and improved standards of living</p>	<p>Housing as a percentage of gross annual capital formation increases by 7%–10% per annum from existing levels from 2010 to 2014 in the countries in which the TA is used</p> <p>Percentage of annual housing production financed by mortgages increases by 10% per annum from existing levels from 2010 to 2014 in the countries in which the TA is used</p> <p>Mortgages as a percentage of total outstanding loans in the financial system increases by 10% per annum from existing levels from 2010 to 2014 in the countries in which the TA is used</p> <p>Number of unskilled and/or semiskilled workers on residential construction sites increases by from existing levels by 15% from 2010 to 2014</p>	<p>Central Bank</p> <p>Ministry of Housing or Urban Development statistics</p> <p>Macroeconomic statistics</p> <p>Individual bank annual reports</p>	<p>Assumptions Supply of housing and developer financing is available</p> <p>Mortgage financing is available at reasonable rates and terms for a wider segment of the population</p> <p>Government support in terms of regulatory environment surrounding housing finance</p> <p>Risks Protracted global recession</p> <p>Lack of finance for housing purchases and housing construction</p>
<p>Outcome Increased level of effectiveness of financial institutions engaged in housing finance in South and Southeast Asia</p>	<p>Increased mortgage lending at financial institutions involved in the TA by 10% per annum from existing levels for 3 years following the implementation of the TA</p> <p>Nonperforming loans not to exceed 3% for 3 years following the implementation of the TA</p> <p>Down-market penetration increases as measured by a 10%–15% change in the ratio of a financial institution's average income of borrowers to median household income in urban areas over the 3 years following the implementation of the TA</p> <p>Introduction of at least two new mortgage products at each financial institution that participates in the TA by the first year after the TA has been implemented. This can take the form of longer-tenor or higher loan-to-value ratio products.</p> <p>Introduction of risk-based pricing at financial institutions participating in the TA by the second year following implementation of the TA.</p>	<p>Bank annual reports</p> <p>Mortgage market industry reports</p> <p>Feedback from financial institutions</p> <p>Central Bank or Ministry of Housing reports</p>	<p>Assumptions Interest of financial institutions in improving their mortgage lending practices</p> <p>Governments provide enabling environment for housing finance</p> <p>Access to finance for mortgage lending</p> <p>Risks Protracted global recession has major impact on health of banking sector and businesses engaged in housing finance</p> <p>Banks become risk averse due to financial crisis and performance of US mortgage markets</p>

Design Summary	Performance Targets/Indicators	Data Sources/Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>1. Core Mortgage Lending Program</p> <p>2. Market Mapping</p> <p>3. Adaptation of Core Mortgage Lending Manual and Training for Specific Financial Institutions</p> <p>4. Training</p>	<p>Core mortgage lending program including mortgage manual and no fewer than 7 complementary training segments developed by the beginning of 2011</p> <p>No fewer than approximately three housing markets in South and Southeast Asia mapped from 2010 through 2012</p> <p>Gap analyses and tailored mortgage lending best practices manual or inputs to existing mortgage lending manuals given to six banks by the end of 2013</p> <p>Adoption of broader and stronger procedures for evaluating creditworthiness of borrowers by the six participating banks 1 year following the implementation of the TA</p> <p>Training conducted in six banks for senior management staff and operational staff by the end of 2013</p> <p>Refresher/follow-up training for six banks by the end of 2013</p>	<p>Reports submitted by consultants to ADB along with training component materials</p> <p>Feedback from financial institutions</p>	<p>Assumptions</p> <p>Interest from banks to work with ADB to improve mortgage lending practices.</p> <p>Willingness to share current mortgage underwriting, servicing, pricing, and risk management practices</p> <p>Interest from bank staff to participate in training on best practices for mortgage lending</p> <p>Risks</p> <p>Lack of interest and willingness of banks to provide information on current mortgage lending practices</p> <p>Protracted global recession</p> <p>Specific risk aversion to mortgage lending due to US subprime crisis</p>
<p>Activities with Milestones</p> <p>1.1 Create core mortgage lending standards manual.</p> <p>1.2 Develop core training components based on mortgage lending standards manual.</p> <p>2.1 Field visits for mapping mortgage markets in countries in South and Southeast Asia.</p> <p>2.2 Collection of data on housing supply and demand, demographic trends, affordability of homes, and knowledge and use of mortgage products.</p> <p>2.3 Meetings with industry participants and local government officials to discuss legal and regulatory environment.</p> <p>2.4 Report submitted to ADB and financial institutions.</p> <p>3.1 Information obtained from financial institution to perform gap analysis.</p> <p>3.2 Working with financial institution, tailor ADB core mortgage lending manual or existing bank mortgage lending manual.</p> <p>4.1 Develop tailored training components for senior and mid-level management, and operational staff.</p> <p>4.2 Provide refresher training course to banks 6 months after initial training program is completed.</p>			<p>Inputs</p> <p>Approximately 55 person-months of international consulting services</p> <p>Technical Assistance Special Fund-Others of \$1,300,000 equivalent</p>

ADB = Asian Development Bank, TA = technical assistance.

Source: Asian Development Bank estimates.

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Total Cost
Asian Development Bank Financing^a	
1. Consultants	
a. Remuneration	
i. International consultants	970.00
b. International travel and per diem	250.00
2. Training, seminars, and conferences	5.00
3. Miscellaneous administration and Support costs	2.00
4. Translation and dissemination	30.00
5. Contingencies	43.00
Total	\$1,300.00

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF—other sources).

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. It is expected that under the proposed regional capacity development technical assistance (TA) reputable consultancy firms will be hired to undertake the capacity building as described herein and provide the outputs referred to as detailed in the following terms of reference.

A. Lead Housing Finance Consultant for Core Mortgage Lending Program (international, 1.5 person-months)

1. Objective

2. The lead consultant is required to oversee and develop a core mortgage lending manual and training materials, which will illustrate best international practices in mortgage lending. The consultant firm will coordinate with the Asian Development Bank (ADB) to develop these mortgage lending materials.

3. The objective of the TA is to increase financial institutions' readiness or capacity for critically needed housing finance in Asia to respond to serious housing shortages, particularly in urban areas. More specifically, the TA will contribute to this goal by creating a benchmark for best practices in mortgage lending.

2. Scope of Work

4. The lead consultant will (i) act as ADB's primary point of contact with the housing finance consultant, and (ii) provide design and quality control for the core mortgage lending manual and training materials.

3. Detailed Tasks

5. Detailed tasks of the lead consultant will be to

- (i) act as ADB's main point of contact for the development of the core mortgage lending manual and training materials, maintain regular contact with ADB, and coordinate and disseminate information in both directions;
- (ii) set work schedules and ensure deadlines are met;
- (iii) review drafts and final core mortgage manual and training materials; and
- (iv) provide quality control and coherence of mortgage lending manual with training materials.

4. Output and Reporting Requirements

6. Output and reporting requirements for the lead consultant will be to

- (i) provide regular reports and updates on work progress;
- (ii) submit good quality drafts of the core mortgage lending manual and training materials; and
- (iii) produce a final core mortgage lending manual and training materials based upon input from ADB.

B. Housing Finance Consultant for Core Mortgage Lending Program (international, 2.0 person-months)

1. Objective

7. The consultant is required to develop a core mortgage lending manual and training materials, which will illustrate best international practices in mortgage lending to Asian financial institutions. The consultant will work with the lead consultant who will coordinate with ADB to develop these mortgage lending materials.

8. The objective of the TA is to increase financial institutions' readiness or capacity for critically needed housing finance in Asia to respond to serious housing shortages, particularly in urban areas. More specifically, the TA will contribute to this goal by creating a benchmark for best practices in mortgage lending.

2. Scope of Work

9. The consultant will work with the lead consultant to design and develop the mortgage manual and training materials.

3. Detailed Tasks

10. Detailed tasks to be undertaken by the consultant include the following:

- (i) Devise a training manual that focuses on the following components of mortgage lending:
 - (a) marketing strategy and market segmentation,
 - (b) mortgage product overview and development,
 - (c) mortgage processing forms and documents,
 - (d) mortgage underwriting,
 - (e) mortgage servicing,
 - (f) loan pricing and treasury functions, and
 - (g) risk management.
- (ii) Develop complementary training materials, including standard presentations, for the major components noted in (i).

4. Output and Reporting Requirements

11. Output and reporting requirements required under the TA by the consultant will be as follows:

- (i) Submit one training manual on mortgage lending practices and standards to the lead consultant.
- (ii) Submit no fewer than seven training materials and/or presentations on the components associated with the mortgage lending manual to the lead consultant.

C. Lead Housing Finance Consultant (international, 15 person-months)

1. Objective

12. The lead consultant is required to oversee the development of tailored mortgage lending guidelines and training to financial institutions in Asia that receive financial support from the ADB Private Sector Operations Department. The consultant firm will coordinate closely with ADB and the respective financial institution to develop this program.

13. The objective of this assignment is to develop the capacity of financial institutions to undertake and expand critically needed housing finance in South and Southeast Asia. More specifically, the TA will strengthen a particular financial institution's underwriting and servicing guidelines, product development capabilities, and knowledge of the mortgage markets in which it operates.

2. Scope of Work

14. The lead consultant will (i) act as ADB's primary point of contact with the housing finance consultants, and (ii) provide design and quality control for the tailored mortgage lending manual and training materials for each financial institution. The tailored mortgage lending program will be based upon a previously developed core mortgage lending program developed by ADB.

3. Detailed Tasks

15. Detailed tasks of the lead consultant will be to

- (i) act as ADB's main point of contact for the development of the tailored mortgage lending manual and training materials for specific banks for which ADB provides support, maintain regular contact with ADB, and coordinate and disseminate information in both directions;
- (ii) set work schedules and ensure deadlines are met;
- (iii) review drafts of mortgage manual and training materials;
- (iv) provide quality control and coherence of mortgage lending manual with training materials;
- (v) coordinate with ADB and appropriate government and finance sector developing member country entities to arrange dates and other logistics for mapping exercises and training seminars; and
- (vi) organize and conduct training seminars for financial institution staff.

4. Output and Reporting Requirements

16. Output and reporting requirements for the lead consultant will be to

- (i) provide regular reports and updates on work progress;
- (ii) submit good quality drafts and a final report of the market mapping exercise;
- (iii) produce a tailored mortgage lending manual;
- (iv) provide training materials for specific financial institutions;
- (v) complete two training courses, one of which will be based upon a train-the-trainer approach and the other of which will be offered to senior management and consist of broader themes related to housing finance; and

- (vi) provide refresher training courses (one course to each financial institution) after 6 months from the initial training for the specific financial institution.

D. Housing Finance Consultants (2 international, 18.5 person-months for each)

1. Objective

17. The consultants are required to develop tailored mortgage lending guidelines and training to financial institutions in Asia that receive financial support from the ADB Private Sector Operations Department. The consultant firm will coordinate closely with ADB and the respective financial institution to develop this program.

18. The objective of this assignment is to develop the capacity of financial institutions to undertake and expand critically needed housing finance in South and Southeast Asia. More specifically, the TA will strengthen a particular financial institution's underwriting and servicing guidelines, product development abilities, and knowledge of the mortgage markets in which it operates.

2. Scope of Work

19. The consultants will (i) map the mortgage markets in those countries in which ADB has determined that banks are interested in receiving capacity development in this sector; (ii) conduct gap analyses on ADB-selected banks' mortgage lending practices as compared with international best practices; (iii) tailor the ADB standard training manual and training materials to specific banks' needs and practices; (iv) conduct training at banks for senior management, mid-level management, and operational staff; and (v) provide a refresher training course 6 months after the initial course has been completed

3. Detailed Tasks

20. The consultants will perform the following detailed tasks related to capacity development in each financial institution:

- (i) Market mapping, which will include a field visit to each country and analysis of the legal and regulatory frameworks that enable or prevent housing finance development (including titling and foreclosure processes). A housing market analysis will also be performed that will address demographic trends, affordability of homes, housing supply, customer demand, and knowledge of mortgage products. Additionally, the market mapping exercise will help to identify those products that are currently offered in the market.
- (ii) The consultants will conduct a gap analysis of the bank's current mortgage lending practices. Based upon this analysis and the market mapping exercise, the consultants will work with the bank to tailor ADB's core mortgage lending manual and training materials.
- (iii) The consultants will provide training seminars for various segments of the bank's staff. Senior management will be provided with a program that helps them to establish the financial institution's overall strategy for mortgage lending, marketing and promotion, and consumer awareness. Additionally, risk management and information technology requirements will be addressed, as well as funding sources and asset and liability management. For middle management and operational staff, a train-the-trainer approach will be used to ensure

sustainability over the medium and long term. This will include tailored training materials, case studies, and interactive exercises to assist the trainers. The training package will cover all aspects of mortgage lending.

- (iv) The consultants will also provide follow-up training in the form of a refresher course 6 months after the original training program. This will help to reinforce the basic concepts and practices, and ensure that the financial institution is implementing best practices.

4. Output and Reporting Requirements

21. Output and reporting requirements for the consultants will be to

- (i) Provide market mapping report to lead housing finance consultant.
- (ii) Submit tailored mortgage lending manual and supplementary training presentations and materials to lead housing finance consultant.
- (iii) Work with lead housing finance consultant to conduct three training seminars per financial institution.