RESPONSIBILITY CENTER SYSTEM TRAINING PROGRAM:

GOVERNMENT HOUSING BANK

Final Report

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BACKGROUND

At present, Government Housing Bank (GHB) commands a dominant position in the Thai home mortgage market. GHB has about one third of the market for home mortgages nationwide. This dominant position is largely due to the lower funding costs available to GHB as a government-owned bank. However, as the Thai financial system recovers and restrictions on foreign entry are eased, competitive pressures will mount and the bank's bureaucratic organizational structure and operating procedures will lead to the erosion of its dominant market position.

The government is increasingly unwilling and unable to provide large capital infusions to the financial sector due to decreased tax revenues and public sector debt limits. State enterprises such as GHB are now faced with the task of generating their own capital (i.e. creating retained earnings) for their continued growth. The focus now is on earning higher returns with regard to assets and equity (ROA and ROE) rather than completing government-mandated tasks. Over time, pressure from the Ministry of Finance to boost returns could translate into increasing the bank's below-market interest rates on loans and/or charging fees for some of the services the bank currently provides for free. GHB's management team understands these threats and has embarked on a program to become more profit-driven and customer-focused in response to both the foreseen competitive and new governmental pressures.

GHB possesses an extensive banking franchise that could conceivably deliver a broader range of products and services profitably, while still concentrating on its primary product, home mortgage loans. To build on its marketing strength and take advantage of its national network, GHB is developing a new focus on efficiency, productivity, and profitability. From a financial perspective, this effort involves achieving continually better ROA targets. Theoretically, the formula for improving ROA is quite simple: increase interest revenue, lower funding costs, increase fee income, improve loan portfolio quality so as to minimize provisions, and reduce administrative/operating costs through enhanced efficiencies. Improvements in these areas though will require cultural as well as legal changes at GHB.

To achieve significant ROA improvements, GHB's officers and employees must become more focused on efficiency and profitability. GHB management made the decision to implement a responsibility center system (RCS) and to organize the bank into profit and cost centers—each with the responsibility for achieving an ROA or budgeted expense target. To assist GHB refine and implement its RCS, GHB sought USAID funding to train its staff in the concepts related to RCS management. Development Alternatives, Inc. (DAI) is the contractor selected to provide the necessary training.

RESPONSIBILITY CENTER SYSTEM

The Process

The necessary steps involved in implementing GHB's responsibility center system are:

- Develop a consensus among senior managers on the business strategies to pursue that will lead to enhanced financial performance;

- Redesign the bank's current responsibility/reporting structure to fit the identified strategies;

- Design enhanced accounting and management information systems to provide accurate, timely information that can empower managers within the new responsibility/reporting structure to measure, analyze, and improve their unit's ongoing financial performance;

- Develop a structure of employee and business-unit incentives that reward performance that meets or exceeds financial targets;

- Educate the bank's senior managers, including department heads, branch managers, and business unit managers about the new strategies, systems, reporting, and incentive structures; and

- Roll out the new strategy and systems, making sure to provide manageable financial targets and sufficient decision-making authority to business unit managers so that they can achieve the new performance targets.

As a first step, it is sensible to establish a business strategy for GHB. This overall strategy must then be translated into bank-wide financial targets. Subsequently, the bank-wide targets can be dissected into specific financial targets for each operating business unit, i.e. profit and cost center. The financial management information system must be adjusted and/or enhanced so that GHB responsibility center managers have access to timely and accurate information on their progress toward meeting their goals.

Within the business units, employees must be properly motivated and rewarded for the responsibility they assume in meeting financial targets. It is possible to put in place a RCS without any change in the structure of employee incentives or compensation. However, it is unlikely that a RCS will produce substantial results, in terms of profitability or enhanced returns, without also introducing a new, transparent system of performance based employee incentives and rewards.

The Benefits

A well-designed RCS should help GHB retain its leading position in the home mortgage loan market. With the system in place, the bank will be in a better position to compete with the other private commercial Thai banks and non-bank financial institutions. It should be noted, however, that an RCS system is a means for improving performance but is not the end in itself.

As GHB becomes more competitive, the bank should be able to reduce and ultimately eliminate its need for continual public sector capital financing. This applies to both governmental equity injections and government-guaranteed debt. The bank should be able to achieve this overall goal without compromising its social mandate of providing affordable home financing to Thai nationals of moderate financial means. With careful industry analysis of all the charges the other private banks impose on their customers for originating, underwriting, and managing home loans, GHB should be able to boost its fee income sources while still offering a discount relative to the private Thai banks.

The overall management of the bank should also become easier with such clearly defined financial goals. Top management will have more time to devise ways in which to empower their colleagues to achieve the overall targets. In essence, top management can act as consultants and mentors to their business unit heads rather than bureaucratic directors.

The RCS system should also improve morale. Once individuals realize that their positive contributions can result in higher remuneration and career opportunities immediately rather than relying on years of service, creativity and productivity enhancements should flourish. Team spirit strengthens within business units as the RCS is a transparent structure by definition. The end result would be a large improvement in operational efficiencies and a stimulation of revenue generation and a minimization of operational expenditures.

GHB’s Existing RCS

A few years ago, the bank’s president (Mr. Siriwat Phromburi—now Executive Advisor) introduced the RCS concept to the bank and tasked the Office of Quality Management (under the management of Mrs. Rattana Ruengrong) with its implementation. Although GHB has made progress in developing the RCS concept, their current implementation has several shortcomings and only a small number of management and staff are familiar with the concept.

At present, the Office of Quality Management has completed the task of assigning profit and cost center designations to the various departments within the bank. Monthly financial statements (profit/loss and balance sheet) are generated on a stand-alone workstation with the manual input of the necessary data. There is not a complete integration between RCS and the bank’s accounting system. In addition, there is a two-to-three week delay in completing the statements due to productivity limitations of the bank’s core computer system. Furthermore, the accounting and treasury departments have not kept track of internal transfers from/to branches with excess/deficient deposit bases. As such, departmental/branch balance sheets are not overly accurate.

The personnel department has created a performance based remuneration system based on ROA targets for managers of profit centers and expense level targets for cost center managers. However, loan officers are not evaluated on ROA targets—only by the number of new loans generated minus delinquent loans. If targets are exceeded, there is the possibility of base salary increases (but only up to +US$20 per month). There are no penalties for missing targets. GHB is subject to the civil servant pay scales and this limits the amount of remuneration that is possible to be earned. As a result of its limitations, managers do not have a strong incentive to use GHB's existing RCS as a management information tool. The rewards of the system are inadequate and penalties are non-existent.

It is apparent that the bank is struggling to align its bank-wide objectives with branch objectives and the methods that their personnel department can then use to evaluate managers. As such, department and branch managers complain that the current methodologies (transfer pricing for funds from the treasury department and the allocation of expenses) are unfair. In addition, there seems to be a general lack of understanding with respect to the RCS concept.

TECHNICAL ASSISTANCE PROVIDED

Program Objectives

The RCS training program and consulting services provided by DAI for GHB had four main objectives:

- Provide GHB senior management with an overview of the RCS concept and how it can used to improve bank performance.

- Assist GHB senior management to identify the main obstacles to implementing an effective RCS in GHB and reach a consensus on the design of the RCS.

- Teach a select group of GHB staff on the subject matter and teaching techniques necessary for them to implement an internal training program on using the RCS to improve bank performance.

- To assist GHB's Quality Management Department develop and refine GHB's RCS.

Training Program

The two training seminars assisted GHB in implementing its own RCS framework by providing top executives with the latest concepts in management control and training its internal instructors in a comprehensive manner. Both seminars were orally presented in English with consecutive translation into Thai. All visual materials including the course manual were presented in Thai language.

An extensive slideshow presentation in Thai language was presented to all seminar participants. The course was entitled "Using the Responsibility Center System to Improve Bank Performance". The first three days of the Training-of-Trainers Seminar were dedicated to understanding the core material. On the fourth day, participants were taught how to teach the course to their colleagues. The teachers also highlighted changes that GHB needed to make in order to improve its RCS. On day five, participants were split into groups of four, and these groups prepared their trainer presentations which were given over the sixth and seventh days.

The core material consisted of several topics. The first topic discussed the banking trends in Asia and Thailand in particular. Of importance to GHB was the fact that the retail market of the banking sector represents almost twice the opportunity/size of the corporate sector. However, numerous banks also recognize this point and the competitive pressures are mounting from regional and local banks alike. Because of the competition, the need to implement an effective RCS is a critical success factor for GHB going forward. Because bank financial analysis is a prerequisite for understanding the RCS concept, DAI presented material on bank financial accounting and analysis. Participants were asked to construct financial statements and do an analytical comparison of banks within Thailand. Next, the responsibility center concept was presented in detail along with the steps necessary to implement the system. Specific attention was placed upon establishing clear performance measures within responsibility centers and conducting follow-up evaluations of departments and individual with regard to the measures. A further classroom exercise on analyzing all the different departments within a bank from a profit and cost center perspective was conducted. All departments were given individual income statements (P&L) and balance sheets and participants were required to analyze each part of the bank so as to sharpen their skills in recognizing areas for improvement in operations. With a full understanding of the core concepts, DAI's trainers presented specific suggestions for improving both bank and branch performance.

Consulting Services

After the completion of the training program, DAI provided individual consultation to the Quality Management Department to assist in the development and refinement of various aspects in the design and implementation of GHB's RCS.

DAI consultants discussed the role of the funds transfer rate (FTR) at the bank and made suggestions to improve upon GHB's existing FTR structure. At present, GHB uses twelve different FTRs in determining benefits/costs to excess deposit-generating branches and deficit branches. In general, Bangkok branches have more deposits than needed to finance their loan portfolios and provincial branches do not. For short-term deposits (less than one year in tenor), branches get credited the savings deposit rate (currently 2.5 percent) plus a 50 basis point margin or 3 percent. Long-term deposits get a credit of the long-term deposit rate (currently 4.5 percent) plus a 50 basis point margin or 5 percent to the excess branch's P&L. Most branch managers in the excess-deposit branches try to have their deposits classified as long-term in order to boost up their internal profitability—an undesirable result of the FTR given the excess liquidity the bank is faced with.

Deposit-deficit branches are charged a rate depending upon the actual loan product (fixed 1 year, fixed 2 year, floating rate, etc.) held on its loan portfolio plus various margins. These FTRs range between 3 percent and 7 percent. As a result, the managers of these branches usually push the loan products that entail the lowest charge FTR. As such, the choice of loan products is not always presented in an objective manner with the best interests of the customer in mind—a large mistake. In addition, the branch managers are often confused by the numerous FTRs.

DAI pointed out, and GHB officials have acknowledged the problems inherent in the existing system. Given that one of the characteristics of a well-designed RCS is to simplify the measurement performance standards of branch managers, DAI suggested GHB reduce the number of FTRs to as few as possible. In theory, a single FTR would be ideal. This point was discussed in detail, but given GHB's status as a government bank with a social mandate, certain independent pricing actions are not possible. As a point in this case, the bank is not able to lower its deposit rates to rectify its excess liquidity situation. Currently, the Ministry of Finance will not allow GHB to lower deposit rates any further as it affects certain segments of the Thai population who dependent upon the income generated by their savings.

In order to discourage excess deposit generating branches, a decision was reached to keep the two existing rates for short-term and long-term deposits, but with one added provision. Branches must first cover all of their loan portfolios with long-term fixed deposits greater than 1 year (does not include savings accounts) before they can get credit for any additional long-term deposits with the higher 5 percent FTR credit. This action alone should discourage branch managers from accumulating additional unneeded deposits.

To simplify the FTR charge to deposit-deficit branches, a decision was made to adopt the bank's total cost of funds rate (weighted average of all deposits and long-term treasury instruments). The current rate is 5.1 percent. As there would be only one rate charged for all loan products, these branch managers should have no incentive to discriminate between the different loan products or sell products based on their own interests rather than those of the customer. In addition, the deposit-deficit branch managers will have a greater incentive for becoming self-sufficient in deposits (i.e. the funding cost would only be 2.5 percent relative to the 5.1 percent rate they are being charged by the FTR). If they are proactive, the branch managers can pickup 260 basis points on their branch P&Ls.

The improved FTR structure for GHB was presented at a management meeting and a decision was made to reduce the number of FTR rates from twelve to six. Furthermore, DAI suggested that the six newly adopted rates could be further reduced to just four. The six newly adopted rates include four for the credit on excessive deposits—one set of short-term and long-term with margins and the other set without margins to be phased-in within one year. DAI explained that the with-without margin criterion was unnecessary and that GHB could let the excess deposit branches keep the margined FTRs indefinitely into the future. They would just have to prove that their long-term deposits exceeded their loan portfolios before they would be given the more attractive 5 percent FTR credit. As most branches fail this test, they will only receive a lesser 3 percent FTR credit on excess deposits and therefore will not have any incentive to accumulate more deposits at their branches.

The remaining two FTRs that apply to deficit deposit branches are based on the bank's total cost of funds for government-sponsored mortgage loan programs and the lending rate of loan products plus a 50 basis point margin. The two rates roughly come out to about 5 percent each at current interest rate levels. This is a compromise but it sends a message to deficit deposit branches that to increase their own funding/deposit sources will result in higher profitability for the branch overall. This is the type of behavior GHB is trying to instill at the branch level.

DAI also advised GHB on methodologies to allocate head office expenses. GHB wants all top management, head offices expenses to be allocated to profit and cost centers based on their usage of top management resources. An appropriate methodology for allocating expenses was offered for each specific expense type. For example, allocations based on the number of employees within a particular RC unit were suggested. The rationale for this type of allocation methodology is that it discourages managers from hiring too many staff members. Other allocation methodologies recommended include actual usage, square meters of office space, and the number of loan/deposit customers serviced.

GHB also inquired about demand charges used in determining head office allocations. DAI explained that this is an activity-based costing (ABC) concept. As GHB is still some distance from being able to accurately measure the profitability of the services/products it provides both externally and internally, DAI advised that they should not focus on this type of cost accounting for the time being. After the bank has implemented the basic responsibility center concept detailed previously to geographical locations such as branches and departments, they can evolve their financial MIS to analyze product/service profitability as well as customer profitability that require ABC concepts.

IMPEDIMENTS TO FULL IMPLEMENTATION

After DAI's review of GHB's organization and operations, certain impediments to a full implementation of the RCS concept are apparent. If these issues are not addressed and rectified, only a partial implementation of RCS will be possible.

GHB has a classic problem of separating its ownership and management functions. The Ministry of Finance wholly owns the bank, but does not give GHB's managers free reign in running their home loan banking business and/or handling employee remuneration issues. All employees are assigned civil service pay grades which limits management's ability to reward top performing individuals. Also, the current employment policies do not allow managers to eliminate the bank of underperforming employees.

The Ministry of Finance needs to empower GHB's management by delegating responsibility to them. In turn, management needs to delegate responsibility down to the level of department heads and branch managers so they can run their businesses profitably and professionally. Given a free hand regarding hiring/firing/rewarding/punishing employees, GHB management could realize all the aforementioned benefits of the RCS for the benefit of GHB and the Thai government. If the Ministry of Finance becomes dissatisfied with the bank's financial performance, it can remove management in the usual manner of a Board of Directors' decision. The human resource management and empowerment of management issues are the critical limitations for the full implementation of RCS in GHB.

At the operational level, GHB's financial management information system needs to be modified and/or enhanced to provide the necessary information for responsibility center managers. RCS reports are currently run off of a stand-alone PC workstation. There is much room for human error and timing delays. There is the option of using the bank's general ledger (GL) servers from the accounting computer system to deliver more timely reports to business unit heads. However, the analytical capabilities of such a delivery vehicle would be limited at best. With a full functioning financial MIS, business managers would be able to look at "what if" scenarios to help them improve productivity and profitability. With such a system, management could analyze directly the profitability of each product/service as well as particular customers or individual employees.

EVALUATION OF THE TRAINING PROGRAM

The Executive Seminar was conducted over a two-day period and attended by 25 top executives. On the first day, the seminar trainer presented basic banking financial concepts and an overview of RCS. This part of the presentation went generally well. After this segment, a detailed spreadsheet presentation of a bank broken down by profit and cost centers was delivered. However, the level of detail of the working example was too great and many in the audience were confused by the accounting procedures. On the second day of the presentation, a question and answer format was adopted to clarify the questions that arose on the first day.

Following the Executive Seminar, an evaluation form was given to the participants to elicit feedback on the program. The participants were asked to rate the trainer, the translator, the content, the presentation format, and the overall seminar on a scale of excellent, good, fair, and poor. Of the 25 participants, 11 completed the evaluation form representing a 44 percent response rate. The seminar presenter received a rating of 45 percent excellent and 55 percent good. The content of the seminar rated 9 percent excellent, 82 percent good, and 9 percent fair. The presentation format received a grade of 18 percent excellent and 82 percent good. On an overall basis, the seminar scored 10 percent excellent and 90 percent good marks. Overall, the Executive Seminar was a success in achieving its objectives

In the Training-of-Trainer Seminars, the objective was to develop a course for department and branch managers on how to manage a department or a branch as a profit center. The seminar covered the concept and benefits of a RCS as well as presented a simplified spreadsheet example. In addition, it covered how to develop loan and deposit business, improve customer service, and other essentials of branch management. In the end, participants were given an opportunity to present RCS concepts to the whole class with immediate feedback from their classmates and trainers.

At the end of the Training-of-Trainers, an evaluation form was given to the participants to elicit feedback on the program. The participants were asked to rate the seminar's content, venue, and the trainers but in greater detail than the evaluation conducted in the Executive Seminar. Of the 27 participants, 13 completed the evaluation form representing a 48 percent response rate.

In the content section, 85 percent of the participants stated that they had little-to-average knowledge of the course content prior to the seminar. After the training, 100 percent thought they had improved their knowledge pertaining to topics covered during the seminar. 92 percent of the class agreed that the content was aligned with the course's objectives. A similar 92 percent agreed that the course was useful for them individually in the performance of their jobs.

With regard to the venue, 54 percent of the class felt the length of the course was adequate—an indication that the 7 day course was slightly too long. 69 percent felt that DAI used appropriate materials for the training. 77 percent believed the venue and equipment used in the seminar were appropriate. 62 percent of the evaluations agreed that GHB had provided adequate facilities for the seminar.

In the feedback section on the trainers' performance, 100 percent were convinced the trainers had a deep knowledge base of the course content. 85 percent agreed that (i) the trainers had the ability to teach/transfer knowledge to the participants; (ii) the lecture was clear; (iii) the trainers used good training techniques; and (iv) the trainers were able to control the class. 69 percent of the evaluations felt the trainers had the ability to provide clear answers to the class, and 62 percent thought the trainers used appropriate equipment. Finally, 92 percent believed the trainers were punctual and had good personalities that contributed to creating a good learning environment.

Overall, the Training-of-Trainers Seminar was very successful in achieving its objectives. The RCS knowledge base was well received and understood. With this foundation, the bank's trainers should be able to teach their colleagues about the basics of the RCS approach to improving bank performance.

RECOMMENDATIONS FOR FOLLOW-ON TECHNICAL ASSISTANCE

Follow-on Training

The seven-day Training of Trainers program on the RCS was a sound beginning towards training a select group of GHB staff about the RCS approach and how to teach their colleagues about the RCS approach. However, given GHB's extensive branch network and the complexity of the RCS approach, it is evident that GHB would benefit from more training programs in the RCS approach and a number of other specific banking skills that are necessary for the successful implementation of the RCS in GHB. These topics include bank financial analysis, asset liability management, risk management, credit risk analysis and management, human resource management, and customer service. GHB has expressed interest in having DAI conduct further training.

Financial Management Information System

Competition in the banking industry in Thailand will continue to intensify as the result of shorter product life cycles, increasing use of new technologies, and new distribution channels. To remain competitive and achieve RCS performance targets, GHB must adopt a stronger customer relationship orientation. Building customer loyalty will depend on GHB's ability to meet the needs of different segments of the market. To accomplish these goals, GHB needs an integrated financial management information system (FMIS) that will:

- Give responsibility center managers the analytical tools necessary to achieve their performance objectives.

- Facilitate a customer relationship strategy based on collecting customer information and using it for market segmentation and target marketing.

GHB staff will need to be trained in the proper use of the FMIS so as to align the new system with the RCS. GHB staff may also require additional training in using activity-based costing concepts. DAI is currently providing type of technical assistance to other banks in Thailand, and therefore, is in a unique position to assist with these needs. DAI can assist GHB to refine the way it collects customers' information and train the bank's staff on how to manage and analyze it. GHB will then be able to easily extract knowledge about its customer base and gain insights into what customers value and how to appeal to different market segments.

Core Banking System

As GHB's computer staff enunciated, GHB needs to either upgrade their main Tandem system or purchase a new core banking system to speed up their data processing capabilities to support the RCS and other primary bank functions. A new core banking system might be the best choice as GHB intends to introduce more e-banking capabilities for its staff and customers. DAI is currently in the process of advising both private and state-owned banks in Thailand on the acquisition of new core banking systems.

ANNEX 1

LIST OF PARTICIPANTS

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EXECUTIVE SEMINAR

Name	Position	Department
Mr. Siriwat Phromburi	Executive Advisor	Head Office
Mrs. Krongcin Kanitasut	Senior Executive Vice President	Head Office
Mrs. Nandharat Kullavanijaya	Senior Executive Vice President	Head Office
Mr. Siddhichai Limpanonda	Executive Vice President	Head Office
Mr. Chaitawat Vongsawang	Executive Vice President	Head Office
Mr. Prayooth Suntivutimethee	Executive Vice President	Head Office
Mr. Watana Monojaroen	Inspector	Head Office
Mrs. Jamaree Savetajinda	Senior Vice President	Credit Management
Mr. Siddhichai Binaree	Senior Vice President	Accounting
Mr. Luechai Chiravinijnandh	Senior Vice President	Personnel Administration
Ms. Apirat Tantivejakul	Senior Vice President	Info. Technology Dev.
Mr. Thanakit Theerakarn	Senior Vice President	Technology Planning & Op.
Mr. Anusorn Thongsamran	Senior Vice President	Office Administration
Mr. Vichai Promsithikul	Senior Vice President	Regional Branch 2
Mrs. Chinda Rojanasopondist	Senior Vice President	Loan Supervision
Mr. Amnuay Sripoonsuk	Senior Vice President	Legal
Mrs. Rattana Ruengrong	Senior Vice President	Office of Quality Mgmt.
Mr. Thada Chaiyacupt	Senior Vice President	Metropolitan Branch
Ms. Waree Towan	Senior Vice President	Internal Audit
Mr. Suthin Phanpishit	Assistant Senior Vice President	Regional Branch 1
Mr. Piyaratana Usubharatana	Assistant Senior Vice President	Project Buyers Mortgage
Mrs. Ruengjai Khyayanasutr	Assistant Senior Vice President	Project Buyers Mortgage
Mr. Yuthana Yosakrai	Senior Vice President	Electronic Banking
Ms. Chantana Chullamonthol	Assistant Senior Vice President	Accounting
Mrs. Kanchana Tangnoo	Vice President	Custodian

TRAINING-OF-TRAINERS SEMINAR

Name	Position	Department
Mrs. Rattana Ruengrong	Senior Vice President	Office of Quality Mgmt.
Mr. Somchitr Chaichana	Assistant Senior Vice President	Regional Branch 2
Mrs. Chalauyrat Perom	Assistant Senior Vice President	Credit Management
Mrs. Lertluck Limlamai	Assistant Senior Vice President	Metropolitan Branch
Mrs. Panee Sumanaseni	Assistant Senior Vice President	Metropolitan Branch
Mrs. Vijit Nakornchai	Assistant Senior Vice President	Metropolitan Branch
Mrs. Naphapong Sorndej	Assistant Senior Vice President	Metropolitan Branch
Mr. Suwan Sasiwongsoontorn	Assistant Senior Vice President	Metropolitan Branch
Mrs. Ruengjai Khlayanasutr	Assistant Senior Vice President	Project Buyers Mortgage
Ms. Sirima Sema	Vice President	Regional Branch 2
Mrs. Porta Yimtraipom	Vice President	Project Buyers Mortgage
Mrs. Jinda Sripoonsook	Vice President	Credit Management
Mrs. Saowakon Chusri	Branch Manager	Regional Branch 1
Ms. Boonma Amornratanacharoen	Vice President	Metropolitan Branch
Mrs. Napajaree Na Pattalung	Branch Manager	Metropolitan Branch
Mr. Kongdacha Chairatana	Branch Manager	Regional Branch 1
Mr. Sirapong Suwannasree	Branch Manager	Regional Branch 1
Mr. Supharp Noothep	Branch Manager	Regional Branch 1
Mr. Rachan Kisorawong	Branch Manager	Regional Branch 1
Ms. Suchanee Phuntavee	Assistant Vice President	Project Buyers Mortgage
Mr. Tanin Limpachayopas	Assistant Vice President	Accounting
Ms. Krongthip Marattana	Assistant Vice President	Fund Management
Ms. Oranuch Pongprayoon	Accountant	Accounting
Mr. Palakorn Viriyasart	Instructor	Office of Quality Mgmt.
Mr. Booncherd Thongmung	Officer	Office of Quality Mgmt.
Ms. Kanjanika Srirattanatri	Officer	Fund Management
Ms. Varangsiri Viriyasirikul	Officer	Office of Quality Mgmt.

ANNEX 2

GHB DEPARTMENTAL INTERVIEWS

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OFFICE OF QUALITY MANAGEMENT

Mrs. Rattana Ruengrong, is responsible for the implementation of the RCS concept at GHB. Her assistant is Ms. Nok who is tasked with creating each profit center's P&L and balance sheet on a monthly basis. As such, she is an instrumental person with regard to the cost allocation methods currently employed at GHB.

Our discussion was of the general nature of the bank. GHB makes mortgage loans to two types of customers: individuals and land developers or "projects" as they are referred to at the bank. In the former case, individual loans can be priced at fixed or floating rates or a hybrid of the two. Individual loans are handled out of the Individual Mortgage Department. Project loans consist of two types. The first one is to land developers to actually develop and build housing units. This is usually a short-term (less than one year and called OD within the bank) construction or bridge loan. The organizational unit within the bank which handles this type of loan is called the Credit Management Department. The second type of project loan is for on-lending to individuals who actually purchase the housing units. This is a long-term loan (up to 30 years—up to a maximum period where the borrower reaches 70 years of age). The department which handles this loan type is the Project Buyers Mortgage Department.

GHB has 2,165 employees and 64 branches spread throughout the country. There are 1,000 employees at head office (HO) alone. The bank's loan products are distributed out of HO and all of the branches. In the past, branch managers had credit lending authority but this right was taken away and all credit authority and approval is handled at HO. Mrs. Rattana's department has determine that the bank has 7 profit centers (Individual Mortgage Department, Credit Management Department, Project Buyers Mortgage Department, Metropolitan Branch Department, Regional Branch Department 1, Regional Branch Department 2, and Treasury and Funding Department). All the remaining departments are cost centers.

Treasury and Funding

The Treasury & Funding Department deals with investing excess liquidity and long-term funding in excess of deposit funding. With regard to cash management, any long-term excess liquidity is invested in long-term Thai government securities. If the liquidity is seen as short-term, it can be placed in private, non-governmental corporate debt. The department's yield objective on excess liquidity is the Thai government risk-free rate. With regard to long-term funding, the department issues bonds mostly in the 3 and 5-year tenor category. They do have the ability to go out 10 years. As most of the bank's assets are long-term mortgage loans, there is a gapping risk inherent in their portfolio. On the shorter end of the spectrum, the department can issue promissory notes (P/Ns) but this is more of the exception than the rule.

The department helps determine the bank's internal fund transfer rate (FTR) which is the rate charged to branches which cannot sufficiently fund their loan portfolios with locally-generated deposits. The FTRs are updated monthly. The bank calculates 5 cost of fund rates and matches these against 9 different product or loan types the bank offers (see bank's handout for FTR formulas). The cost of fund rates are: short-term deposits (less than 6 months), long-term deposits (greater than 6 months), total cost of deposits/funds, cost of borrowing for 3 year bonds issued, cost of borrowing for 5 year bonds issued. The department attaches as margin on top of the funding cost rate in order to give the branches incentive to mobilize deposits themselves. The margin is set by the Office of the President. It ranges from 200 basis points for a government, policy directed mortgage loan program (partially (25 percent) funded by the Ministry of Finance) to 0 basis points for fixed/floating rate adjustable rate mortgages.

Based on the FTRs generated by this department, Ms. Nok of the Office of Quality Management determines the interest expenses charges to branches' monthly P&Ls on a stand-alone PC. The exercise is not handled by the bank's computer architecture.

Personnel Administration

This is the human resources department at the bank. This department determines the remuneration structure of individuals in both profit centers as well as cost centers. For profit centers at the senior or department head level, the methodology is straightforward and based on return on assets or ROA. Loan officers are evaluated on actual performance or the net number of new loans generated (new loans reduced by the number of new non-performing loans occurring). The remaining staff in profit centers are evaluated more on subjective matters by their superiors. All level of personnel in cost centers are evaluated on a more subjective basis.

In the beginning of the budget process, profit center managers debate on what ROA target will be set for each profit center. This rate is based on past ROA performance as well as other factors which may be more subjective in character. Within each profit center, officers are evaluated relative to their similarly ranked peers. For example, SVP and ASVPs are grouped together; VP and AVPs together, and operation staff together. Within each grouping, the bank assigns 4 possible grade rankings: A (excellent), B (good), C (average), and D (poor). An arbitrarily determined distribution curve is possible within each group. In profit centers, 20 percent of the total individuals within a particular grouping can be A, 40 percent can be B, and 40 percent can be C. For cost center personnel groups, 10 percent can be A, 30 percent can be B, 50 percent can be C, and 10 percent can be D. If a group exceeds the standard set by the bank, they can be given "bonus points". If the standard is exceeded by 10 percent, one additional point is given. If the standard is exceeded by 20 percent, then two points are assigned. The points relate to salary-grade steps allowed within the Thai government's civil salary pay scale.

There are 14 pay grades ranging from C1 (janitor) to C14 (the president). Within each grade there are between 20 and 30 pay steps. Most steps only vary to the order of Baht 300 (US$

6.90) to Baht 500 (US$ 11.50) per month of additional salary each. As such, the benefits for exceeding performance standards are not overly attractive to say the least. The bank is restricted on the additional amount of wage/salary it can pay employees by Thai government regulations and mandates from the Ministry of Finance. The bank is given a target percentage rate to which it can increase its overall wage expenses each year. The bank must divide these incremental funds between its personnel as per the formula explained above. In one sense, GHB is more fortunate than some of its sister state financial institutions. It has received a rating of a Grade A financial institution from the Ministry of Finance (the same as mostly, privately operated Krung Thai Bank) which basically translates into a higher amount of autonomy in determining it remuneration structure.

Office of the President

With regard to RCS, the Office of the President is responsible for setting the margins attached to the fund transfer rates that the bank uses. The reason for the margins is to give branches incentive to mobilize additional deposits to fund particular loan products rather than relying on fund transfers from head office. For low profit margined government-sponsored projects a heavy margin is imposed (up to 200 basis points) in order to use lower cost, locally sourced deposits. Locally mobilized deposits are still an area of improvement needed within the bank as deposits only account for 65 percent of the total loan portfolio. Branch managers have a limited authority to raise deposit rates by 25 basis points on different deposit products in order to have some command on the pricing of their liability products so as to attract the deposits.

The SVP in charge of the department mentioned that the bank does not have an asset-liability risk management system in place and this is area needing improvement. Also, she mentioned that GHB had petitioned the Ministry of Finance to be given access to World Bank (IBRD) funding loans in order to fill out its deposit gap with low-cost funding but had been turned down by the ministry.

Banking

The Banking Department is responsible for handling the collection and disbursement of deposits at the sole head office branch location on Rama 9 Road in Bangkok. It is considered a cost center and besides taking/paying deposits it services 36 ATMs as well as handles mortgage payments made by customers at HO. This HO branch has about Baht 37 billion of deposits which funds around 40 percent of the HO profit centers (Individual Mortgage Department (Baht 62 billion loan portfolio), Project Buyers Mortgage Department (Baht 33 billion loan portfolio), and Credit Management Department (Baht 8 billion loan portfolio) loan portfolios which account for about Baht 103 billion of the bank’s entire Baht 300 billion asset portfolio. There are 108 people in this department.

In addition to the one HO location, the department operates 3 banking counters (take/pay deposits and loans) at 3 large shopping complexes in the Bangkok area (Big C—

Ratburirama, The Mall - Bangkapi, and The Mall—Bangkhen). These banking kiosks operate between 12pm and 8pm so as to conveniently service customers. The kiosks have 3 employees: 2 Banking Department employees and 1 loan officer.

There seems to be one anomaly at the Banking Department. When branches located around the country have excess deposits, they first wire the deposits to this department. In turn, this department then wires the funds to the Treasury & Funding Department. It seems more logical if the branches just wire the funds to the Treasury & Funding Department in the first place for subsequent reallocation to other deposit-deficit branches.

Accounting

The Accounting Department is responsible for all reporting at the bank. It employs 26 individuals. The department can give reporting for the Bangkok area (HO and the Metropolitan Branch Department) as well as the southern area (Regional Branch Department 2) and the northern area (Regional Branch Department 1). The timeliness of the department is about two weeks after the end date on the report. The responsibility center (RC) profitability reports come out about 5 days (or almost 3 weeks after the end of each month) after the Accounting Department reports. The fastest turnaround time is 10 days. The delay in the reporting stems from the bank's computer system's (Tandem) slow processing speed. At present, the computer department takes between 4 and 5 days to run batch interest calculations. Once these are done, the interest calculations are sent to the branches which in turn send their separate account reports back to the HO Accounting Department. If the interest calculations could be done in a more timely fashion, the whole process could be speeded up.

The department is divided into 3 sections. The first is for doing reports. The second handles branch support (i.e. reconciliation & branch control). The third section handles sub-ledger data (right now, accounting personnel just add up all details together and post them to the general ledger (GL)). This section re-enters all of the detailed data into a separate system. However, starting in November 2000, different departments will enter the sub-ledger details with help from the Accounting Department. The sub-ledger section requires a substantial number of the department's personnel (10 individuals) which should be unnecessary now.

There is a deficiency in the branch P&L reports which the department generates. They do not include the interest expenses attached to deficit deposits provided by HO (i.e. funds transferred from the Treasury & Funding Department). As such, the net profit figure reported at the branch level (intended new profit/responsibility center) is meaningless. On the branches' balance sheets (BS), the Treasury funding is also missing from the liability side of the accounts.

Within the Bangkok metropolitan region, all the branches are handled as "one" branch. This is a problem for generating separate P&Ls for each branch—a process which must be done manually. It seems that the account system could handle the separate handling of each Bangkok branch if senior management approval is given.

Another deficiency in the accounting system is that in-house legal expenses for NPLs are not allocated to the branches. Only locally, outsourced legal expenses are charged to the specific branch as incurred. To give one an idea as to the size of legal expenses at the bank, these are running around Baht 120 million per year.

Technology Planning and Operations

The Technology Planning & Operations Department is divided in to 4 sections. The first is projection planning & implementation. The second is network administration & telecom operation. The third is data processing, and the fourth is technical support. The department does not yet charge other departments for its services, but it is interested in charging them based on terminals in use or usage through servers.
The bank's main system is a 13 years old Tandem system which handles the loan, deposit, and the accounting systems. This main system was upgraded about 5 years ago. The deposit system is called DWS (deposit/withdrawal system). The loan system is called MLS (mortgage loan system) and the accounting system is referred to as GL for obvious reasons. HO communicates with its branches through a leased line system. At each branch, there is a replication of the HO setup (i.e. they have DWS, MLS and GL terminals).

The department head admitted that the Tandem system was not optimal. The biggest problem is batch processing at the end of each month. The monthly report takes about 20 hours to run, but the department can only run this program in "off-hours" as the main system is too busy at other times. As such, the report takes about 5 days to generate. The department seems to have plans to get a better main system. Alternatively, they could just upgrade the system again.

Information Technology Development

In contrast to the Technology Planning & Operations Department (determines future needs and operates the telecom/data network), the Information Technology Development Department maintains all of the separate technology systems' applications running at the bank. These include DWS, MLS, and GL system. In addition, a new system called PWI (pre-processed workflow & imaging system) is being maintained. This system (only currently being used by the Individual Mortgage Department) provides a centralized customer information platform in order to accelerate the loan process. PWI is the electronic loan approval process the bank hopes to implement at all of its branches. It should reduce the need to re-input customer data used by the bank's various systems. In addition, this department maintains EIS (executive information system) which gives historical data on outstanding loans, outstanding deposits, and soon NPLs.

The department head stressed that the ability to create ideal P&Ls as well as BS for the RCS concept rested in the Accounting Department as the GL server was the place to compile this information. With regard to the problem of all Bangkok branches being treated as one branch, she said that all that must be done is for the Accounting Department to set separate codes for each Bangkok metropolitan branch. All the necessary data is already within the systems.

Project Buyers Mortgage

The Project Buyers Mortgage Department is the largest profit center at HO. The department employs 91 individuals and has a loan portfolio of Baht 62 billion. The name of this department is confusing, but basically it is “wholesale” mortgage lending.

The department has two customer groups. The first is any company (minimum company size is 50 employees and Baht 20 million in registered capital) which wants to sponsor its employees to get housing loans. These customers are referred to as “welfare” customers at the bank because GHB gives them lower interest rates on their mortgage loan. They also lend 90 percent against the collateral value of the property relative to a normal policy of only 80 percent. The higher margined collateral and 50-100 basis point reduction in lending rates is financed through lower credit risk (as all individual mortgage payments are deducted from the sponsoring company’s payroll account (held at GHB) before the monthly salary is distributed to the sponsoring company’s employee) and hence credit defaults. In this category, credit approvals take about one month as two type of credit analysis are required: one of the sponsoring company and another of the individual mortgage customer. In this welfare customer category, the bank is holding a Baht 50 billion loan portfolio. Baht 10 billion of this department’s loan portfolio is to customers who hold deposit accounts at GHB. Baht 24 billion do not have GHB accounts, and Baht 15 billion of accounts are subsidized by the government. If the sponsoring company in this category fired the employee with the GHB mortgage loan, this individual customer is moved to this department’s second customer group.

The second customer group is for real estate developers who are transferring title to their customers who purchase housing units but need GHB financing. These are long-term mortgage loans to individuals. This customer group represents Baht 12 billion of the department’s loan portfolio.

The Project Buyers Mortgage Department is structured into four sections. The first is marketing for the second “regular” customer group (defined above) or individuals. The second is again for marketing but for the “welfare” type customers which entails a corporate as well as an individual client. These two groups employ 10 and 11 individuals respectively. The third section is credit analysis which has 54 employees. These individuals are broken down into 6 teams with 9 people on a team. As the name suggests, they handle credit risk analysis but have no loan approval authority. The teams compete against one another in terms of NPL levels, portfolio size, and approval timings when it comes to compensation. This section has an average 17 day turnaround time for individual customers. The final section is customer service to help clients after a loan is initiated.

The marketing function follows a four-step process. First a customer is found; next, an appraisal of the property is undertaken (both in-house and out-sourced—GHB uses 12 out-sourcing appraisal companies); then, a credit analysis is conducted; finally, a credit approval is sought. The credit approval process is down within the management grouping of the Project Buyers Mortgage Department organization hierarchy. For example, AVPs have a lending authority of below Baht 0.5 million; VPs below Baht 0.75 million, SVPs (or department heads) below Baht 1 million, EVPs below Baht 3.5 million, and SEVPs below Baht 5 million. As is evident, GHB's customers are small and medium-sized borrowers. With regard to the credit approvals for "welfare" corporate customers, if the aggregate loan size is less than Baht 100 million, it must go to a credit committee. If above this level, it must go to a senior management committee. These types of approvals can take anywhere between 4 to 8 months in length. As is evident, GHB is not competitive in terms of turnaround time in making credit approval or rejection decisions. Loan officers are at the mercy of the appraisal department, credit analysts, and the loan approval chain.

GHB does not employ a credit grading structure. Credits are only reviewed at origination and if a request is made to increase the credit line. No period credit reviews are performed. They only use an aging schedule to determine if a loan borrower is late or insufficient on making principal and interest repayments. From our discussion, it appears the only criteria for a credit approval is the valuation of the collateral and not the borrower's cash flow.

The cost allocation for the whole approval process is as follows: appraisal cost from the Collateral Appraisal Department, funding cost from the Banking Department, perfecting security interest from the Loan Documentation Department, NPL charges from the Loan Supervision Department, and HO overhead charged by asset size only.

The pricing on the Project Buyers Mortgage Department products is a standard 100 to 200 basis point credit risk margin. There are no upfront points, fees, servicing fees, etc. Any extra fees must be approved by the Board of Directors so most business heads do not go through all of the effort needed in this regard.

Credit Management

Before Thailand's real estate bust, this was a significant business segment within the bank. However, after the collapse of land developers, this area has just become a servicing area for the remaining viable real estate developers' loans. All NPLs of this customer group have already been sent to the Loan Supervision Department and the Legal Department for workout. As such, the name of the department is appropriate.

The department employs 14 people and has a remaining loan portfolio of Baht 5.5 billion. While the customers can be either individuals or corporations, these customers are only located in Bangkok and its surrounding areas. Regional branches also offer this product but manage their portfolios themselves. Of its portfolio, Baht 0.2 billion is in project loans to land developers. Usually, these loans are short-term in tenor (not exceeding 3 years). The bank only has 13 remaining, current projects. The department's remaining Baht 5.3 billion portfolio is for loans and refinancings to hi-rise rental apartment complexes. These are long-term loans. In this category, the department has 800 loans to apartment complexes which average 30 apartments per complex. The department does not lend for the building of condominiums.

Within the bank, there is a focus of winding down this department after its loan portfolio is amortized. Most likely, it will be merged into the Project Buyers Mortgage Department.

The department is broken down into four groups which cover geographic areas: metropolitan Bangkok, northern Bangkok, southern Bangkok, eastern and western Bangkok. The loan approval process is different than the more individual focused areas of the bank. The head or SVP of the department has no lending authority. Any loan less than Baht 4 million must go to the President for approval. If it is greater than Baht 4 million, it must go to a “credit committee” which can only accept or reject the loan but it has no lending authority (committee is interest in portfolio risk analysis). After this stage, if the loan is less than Baht 15 million, it must go to the “management committee” for lending approval. If over Baht 15 million it must go to the Board of Directors. As most of the loans in this department would be greater than Baht 15 million, there is not much (actually none) interest in booking new loans.

At present, the 13 remaining project loans to developers are credit reviewed every 6 months. The credit reviews on the rental apartments/flats are done monthly.

Individual Mortgage

As its name suggests, the Individual Mortgage Department only makes mortgage loans to individuals. With regard to location, the department only provides these loans to the customers of the head office branch. It does not service customers from other Bangkok metropolitan branches in theory. In reality, though, the other Bangkok metropolitan branches refer their customers (if convenient for the customers) to the HO branch if they want to get a mortgage loan. The department does not service the branches in the provinces or their customers. The Metropolitan Branch Department, Regional Branch Department 1, and Regional Branch Department 2 provide individual mortgage services to the branches under their respective jurisdictions.

The Individual Mortgage Department has a Baht 32 billion loan portfolio. The department’s non-performing loans stand at 32 percent of the total. The department services 61,000 customers (13,000 of which have defaulted). The department provides 4 types of loans: to purchase land with attached homes already built (long-term loan), to refinance existing home loans (long-term loan), for construction loan to build a home (short-term which converts to a long-term loan), and home equity loans for various other uses. In addition to single, detached houses, loans are for townhouses (row house which includes parking space and only for residential living purposes), shophouses (no parking space, business and residential purposes combined), and condominiums.

The department is considered a profit center. It employs 49 individuals distributed into 6 groups. Two groups (6 people each) are responsible for NPL workouts; three loan officer groups (7 people each) are responsible for finding new business; one group of 15 people handles administrative work and filing. The remaining individual is the head of the department or the SVP.

The Individual Mortgage Department is the first area within the bank to implement PWI or pre-processed workflow and imaging. The objective of this IT system enhancement is to accelerate the loan application and approval process. It automates customer information and computerizes client information and loan documentation which is input (only once) by the loan officer. After the client information is input into the system, the loan officer does a cash flow analysis of the borrower and confirms their employment as well as the legal existence of their employer. Meanwhile, PWI sends the loan/property information to a “checker” which is the in-house appraisal unit (Collateral Appraisal Department). The checker also can contract out the appraisal to an external appraisal company. The checker also does a background credit check on the borrower at the credit bureau. The loan officer is allowed to lend a certain percentage of the appraised collateral value. For single, detached homes and townhouses, the collateral haircut is 20 percent. For condominiums and shophouses, the haircut is 30 percent. Next, the loan officer must get credit approval. The credit authority level is the same as for the Project Buyers Mortgage Department. The PWI system has speeded up the bank’s response time to customers (usually between 5 and 8 days); however, there is a bottleneck when the work with outside appraisal firms. Outsourced appraisal data must be manually input back into the system at the Appraisal Department within GHB. The key in of data takes a lot of time and bank resources.

The pricing of the bank’s mortgage loans varies with time. At present, there are 5 pricing options: fixed for 1 year at 4.5 percent and then floating, fixed for 2 years at 5.5 percent and then floating, fixed for 3 years at 6.5 percent and then fixed for a subsequent 3 years at the then prevailing fixed rate and then floating, fixed for 3 years at 8.11 percent and then re-fixed every subsequent 3 years until the loan expires or up to 30 years, and fixed at 9.22 percent for 5 years and then re-fixed every subsequent 5 years until the loan expires or up to 30 years. The pricing is computed at the bank’s yield for their 3 and 5 year bonds plus a standardized credit spread of 250 basis points. There are no fees, points, or other related expenses for the borrower to pay.

Metropolitan Branch

The Metropolitan Branch Department (defined as a profit center) is responsible for 28 branches located under its Bangkok and vicinity jurisdiction. Because of its large size, there is talk of splitting the department into two separately managed departments. The department does policy planning, sets targets for loans & deposits, and establishes incentives for the branches to achieve targets set under the profit center system. The department also handles credit approvals for its branches—depending upon the amount. Some of the branch managers have credit authority up to a limited amount. This authority level is based solely on the asset size of their loan portfolios. Branches are categorized under five classifications which are reviewed every two years: Special, A, B, C, and D. Special branches are those with more than Baht 15 billion in loans. Branch managers can approve credits up to Baht 0.5 million.

The department has 5 branches under this classification. There are 2 A branches (loan portfolio greater then Baht 7 billion). Again, these branch managers can approve loans up to Baht 0.5 million. There are 7 B branches (loan portfolio greater than Baht 3 billion). Mangers here can approve loans up to Baht 0.3 million. There are 3 C branches (loan portfolios greater than Baht 2 billion) and branch managers can approve up to Baht 0.2 million. Finally, there are 11 branches in the D category where their loan portfolios are less than Baht 2 billion. Branch managers at this level have no loan approval authority. Basing lending authority solely upon loan portfolio size seems a mistake. Rather, lending authority should be based on credit quality concerns. Loans needing approval above the lending authority of the branch managers is passed along to officers within the same organizational unit of the bank (i.e. AVP, VP, ASVP, SVP, EVP, SEVP, etc.). The lending authority structure is the same as explained in the Project Buyers Mortgage Department.

The department employs 20 people. If all of the personnel at the 28 branches is included, the payroll rises to about 400 people. The department services Baht 67 billion in loans and takes in the majority of the bank’s deposits (Baht 141 billion). Non-performing loans stand at 19 percent of total loans. The department has 124,000 loan accounts and 16,000 NPL accounts. The department has 1 SVP, 5 ASVPs (handle branch loan approvals and requests for special deposit rates (if amount is greater than Baht 10 million and longer than 6 months in tenor)). Lending rates are not negotiable. In addition, the department has 2 VPs. One handles accounting issues and the other human resource issues. All of the costs of the department are allocated to the 28 branches based on the asset size of the branch. The annual cost of the department is Baht 168 million. The department does not handle product innovation. This is done at the Office of the President.

Regional Branch 1

The Regional Branch Department 1 (and Regional Branch Department 2 for that matter) is structured in a similar manner to the Metropolitan Branch Department as a profit center. This department is responsible for the north and northeast sections of the country. It has 16 branches under its jurisdiction. While its loan portfolio size is Baht 52 billion (25 percent NPLs), its deposit base is just Baht 5.7 billion. We were told the branches in these areas cannot compete against the private banks’ branches as GHB branch managers are only allowed to raise deposit rates a maximum of 25 basis points over the centrally establish rate structure. The private banks give their branch managers more discretion. In addition, the private banks have better coverage of the geographic areas (i.e. more branches). As such, this department relies to a great extent on fund transfers from the Treasury and Funding Department (with requests for additional funding going to the Banking Department first—a redundant procedure.). The largest cost, therefore, for the branches in this department is the interest rate or funds transfer rates charged on transferred funds. It appears the department could use some help in liability product innovation. At present, all deposit products are done at head office. On another cost related point, some of the personnel complained about HO’s allocation of IT related maintenance expenses to their branches. They said that personnel from Bangkok are flown to their branches to repair equipment and this charge is send through their P&Ls. They wonder why aren’t they using local contractors for this work.

The department classifies its branches under the same headings as the Metropolitan Branch Department (i.e. Special, A, B, C, and D). The only difference is the size of the branch's loan portfolio with regard to the category. Special branches have more than Baht 8 billion (1 branch); A has more than Baht 5 billion (2 branches); B has more than Baht 3 billion (6 branches); C has more than Baht 2 billion (4 branches); and D has less than Baht 2 billion (3 branches). Lending authority at this department's branches is not solely based on asset size, rather it is based on NPL levels. If a branch has more than 15 percent NPLs, then its manager has no lending authority. If less than 15 percent NPLs, the branch manager can lend up to Baht 0.5 million. Approvals above this level must go up through the business unit's credit chain.

Personnel in the department number 38 individuals. If all of the branch personnel are included, the number is 281 people. In addition to individual mortgage loans, this department also provides the two loan products ("welfare" loans and individual project buyer loans) described in the Project Buyers Mortgage Department section. The Project Buyers Mortgage Department does not provide any assistance on these loans which seems a doubling up of resources.

The department is organized into 5 sections—each headed by an ASVP. The first looks after administration, the next four sections each look after 4 branches each. In addition to managing the lending operation (credit analysis and approvals), each section has one of the following additional duties: set loan & ROA targets, legal workout and collections, accounting (set cost & budget targets), and set deposit targets. This department has not yet implemented the PWI system (explained in Individual Mortgage Department) and all credit approvals and applications are handled through paper work.

Regional Branch 2

The Regional Branch Department 2 (similar to Regional Branch Department 1) is structured in a similar manner to the Metropolitan Branch Department as a profit center. This department is responsible for the south, central, and eastern portions of the country. It has 24 branches under its jurisdiction. While its loan portfolio size is Baht 62 billion (23 percent NPLs), its deposit base is just Baht 11.4 billion. This department relies to a great extent on fund transfers from the Treasury and Funding Department. Its mandate on sourcing deposits was just changed in 1998. Prior to that period, no deposits were taken locally and all funding came from head office. Given the department had no deposits just 2 years ago, the current Baht 11.4 billion is not a bad achievement.

The department classifies its branches under the same headings as the Metropolitan Branch Department and Regional Branch Department 1 (i.e. Special, A, B, C, and D). The only difference is the size of the branch's loan portfolio with regard to the category. Special branches have more than Baht 8 billion (no branches); A has more than Baht 5 billion (3 branches); B has more than Baht 2.5 billion (10 branches); C has more than Baht 1.5 billion

(7 branches); and D has less than Baht 1.5 billion (4 branches). The lending authority structure is the same as that of Regional Branch Department 1.

Personnel in the department amount to 52 individuals. If all of the branch personnel are included, the number is 415 people. The department is organized into 5 sections—4 of which are headed by an ASVP (two ASVP positions not filled at the current time). The first section looks after administration, the next four sections each look after 6 branches each.

Given the similarity with the Regional Branch Department 1, we focused the discussion (or brainstorm) around the question “what are the largest challenges the branches face in making profits?” The answers given were: (a) employees at the branch level lack an understanding of the profit center concept, (b) the measurement of employees performance is not clear (i.e. loan officers are not evaluated under the ROA evaluation scheme the Personnel Administration Department has created, and (c) the cost allocation from HO is not fair as it is done on an asset size basis rather than on a “volume of transactions” done. Another interesting point which was raised was GHB’s practice of transferring NPLs from branches with many to branches with less so as to equalize the NPL number among all the branches. This is not fair to branch managers. Another limitation the bank faces is that it cannot write-off more than Baht 50,000 per loan without the approval of the Ministry of Finance.

Loan Supervision

This is the first stop when a non-performing loan is transferred from a profit center. It can be considered the first filter in the NPL workout process. It is considered a cost center. The objective of the department is to get defaulted customers back and talking with the bank to resolve their problem loans. Debtors with payments in arrears past 45 days are sent to this department. If after 7 months, the debtors have not resolved their case, the NPL is transferred to the Legal Department. In reality though, if defaulted borrowers make partial payments on their obligations, their loans can be reclassified and stay within this department for much longer than 7 months. This practice both helps the customer (but not the bank) avoid foreclosure and relieves the bank of pressure to provision more against the NPL. Before a debtor can be moved back to the profit center’s loan portfolio, they must be paid up in terms of principal and interest as per the original loan amortization schedule. This department has no authority to re-negotiate lending rates (i.e. lower them). The normal practice is that after the loan is transferred to the department (45 days overdue) a letter is immediately sent to the defaulted borrower requesting payment and allowing 30 days to respond. If nothing is heard, on the 75th day, a 200 basis point overdue fee is charged on the principal balance outstanding. In affect, the customer’s monthly installment will stay the same but the amount of principal amortized will be reduced. After 165 days of not hearing or a lack of resolve on the case, the borrowers interest rate will be increased to the maximum allowable (i.e 19 percent).

After 90 days of non-payment, the department also uses the services of outside collection agencies. They use 6 companies which, by the way, are not allowed (due to internal bank policy) to be used by the other departments within the bank (see next paragraph) which are not serviced by the Loan Supervision Department. The defaulted borrower is charge Baht 1,000 for the services of the collection agency. This structure is bad though as the collection agencies only focus on the easiest customers because they are the only ones able to pay their Baht 1,000 fee. A percentage of success arrangement would be more effective. The employees of this department are faced with the same problem as the collection agencies. They only go through the established process as they are not compensated for any extraordinary efforts. As such, the department has become a holding tank for unresolved NPLs. Maybe the department should be treated as a profit center where resolved NPLs are treated as revenue and their costs allocated out to the other profit centers which transfer their loans to the department.

The Loan Supervision Department only handles defaulted customers from the Bangkok area and only those coming from the Project Buyers Mortgage Department, the Metropolitan Branch Department, and the Individual Mortgage Department. The Credit Management Department and the two Regional Branch Departments must handle their own initial NPL management attempts. This seems to be an inconsistency and the service should apply to all departments. The department's current NPL portfolio is Baht 33 billion. The department 61 people: 51 officers and 10 contractors who are employed on a year-on-year basis. There are 10 divisions within the department—one for administration (4 people) and the nine others for loan supervision. The nine divisions are broken down into three groups (each under an ASVP) to look after the NPLs of the Project Buyers Mortgage Department (13 people), the Metropolitan Branch Department (15 people), and Individual Mortgage Department (14 people).

Legal

After non-performing loans sit in the Loan Supervision Department or the originating departments for a preordained period of time, they are sent to the Legal Department to initiate the foreclosure and auctioning process. At present, this is one of the largest departments at the bank with 98 employees. It handles an NPL portfolio of Baht 58 billion or between 50,000 bad debt individual customers, 150 apartment complex borrowers, and around 40 Project Buyers borrowers. The Legal Department services all of the departments within the bank. It is defined as a cost center. The department SVP explained that the department cannot be made into a profit center (i.e record revenue based on resolved cases or successful foreclosures) due to Ministry of Finance regulations. A major problem with GHB's current profit & cost center concept is that the expenses of the Legal Department are not yet being allocated to profit centers (or loan officers for that matter) yet.

The department's sole objective is not just to foreclose on pledged collateral. Rather they try to seek a compromise with defaulted borrowers. It is interesting to note that 60 percent of NPL clients start to make payments again once legal proceedings are initiated against them (good idea for shortening the time NPLs sit in the Loan Supervision Department).

The department is organized in to 7 sections: prosecution (17 people), foreclosure (10 people), follow-up and compromise (22 people—can lower unearned interest amounts but are not allowed to give principal haircuts as per the GHB Act), special projects (13 people - drafting re-negotiated legal contracts), accounting & information (14 people—control department expenses, reconciliation, and control outsourced legal expenses), general administration (12 people), and the intercreditor division (7 people - establish GHB's claims against collateral relative to other creditors). With regard to the department's outsourced legal expenses, it uses 22 local law firm which charge only Baht 6,000 per case. The focus is on cost and not success rate. It seems this point of view should be changed so as to collect more on bad debtors. The department's annual expenditures are Baht 110 million (Baht 50 million of its own expenses and Baht 60 million for court fees).