

ABSTRACT

Abstract of thesis submitted to the Graduate School of Maejo University in partial fulfillment of the requirements for the degree of Master of Business Administration in Business Administration

CLIENTS' BEHAVIOR IN SOLVING NON-PAYMENT OF HOUSING LOANS: A CASE STUDY OF BANK OF ASIA PUBLIC COMPANY LIMITED IN THE NORTHERN REGION

By

PHANSUPA SORNPRASIT
OCTOBER 2000

Chairman	: Professor Yanyong Sitdhichai
Department/Faculty	: Department of Agricultural Business Administration and Marketing, Faculty of Agricultural Business

This research was conducted 1) to study behavior of small-scale clients in solving their housing loan debts, and 2) to identify guidelines to solve their problem of non-payment of housing loans. Data collection was done through interview schedules and behavioral observations on solving debts and from data file of 281 small-scale clients with 90-day liabilities of the northern provincial branches of the Bank of Asia Public Company Limited. Analysis of data was conducted using the software packaged program for social science research (ver. 9.01) for the evaluation of percentages, frequencies and chi-square test of statistical hypothesis at 0.05 level of significance. The study of the behavior of the bank clients in solving the non-payment of housing loan showed the following results:

Individual factors. The level of education was found to affect the behavior of clients in contacting the bank in case of non-regular payment, the level of cooperation in providing data for debt monitoring and the payment of present loans. No factor was found to affect the clients' behavior in selecting the means to solve the liabilities as preferred by the bank. On the other hand, the clients' income greatly affected their behavior in solving their debt when the bank applies legal means and when it implements a court order.

Bank conditional factors. The factors influencing the clients' behavior in contacting the bank in case of non-payment, in choosing the means to solve the non-payment of debts as influenced by the bank and in the payment of present term debts, have not been identified in the study. The payment period was found to influence the level of cooperation provided by the clients in examining the data for debt monitoring. The clients' objective in obtaining the loan was the main factor affecting their behavior in solving the problem in both situations when bank applies the legal means and when bank enforces court order. The latter was also affected by rate of loan on an assessed value.

Housing loan debt monitoring/development factors. The study showed that property benefit, number of non-payment days and debt accelerating system, have influenced the client's behavior in contacting the bank after non-payment. They have also affected the ways selected by the client to solve the debt based on influencing conditions, in cooperatively providing data for debt monitoring and in payment of present term debts. However, the study was not able to identify the factor that may have influenced the client's behavior in solving

was not able to identify the factor that may have influenced the client's behavior in solving the debt in cases when the bank applies legal means and also when the bank enforces court order.

Solution means and recommendations. During the inquiry of qualifications of loan applicant, various individual factors should be considered and loan approval should be based on the bank conditions.

The results of the study also indicated that most of the clients were 31-50 years of age which is considered the period of stability but may have been affected by the recent economic crisis. A high number of clients were found to hold a bachelor's degree which is considered to provide the capability to progress in their occupation although at this level, the client usually bears the burden of having high level of expenses entailed in his work and social life. Most of the clients had an income range of 10,001.00 to 30,000.00 baht. The recent economic crisis has affected the income in terms of lowering their income level and increasing their inability to pay their debts.

In terms of the policy or conditional factors agreed with the bank, the bank assessment officer should examine the guarantees put up by the loan applicant based on the purpose of the loan and consider the ease of repayment, ownership and other debt burdens through the examination of asset rights, input price and location of the assets. In terms of the value of loan corresponding to the guarantee assessment, if the percentage is high, the rate of risk becomes greater because the debt is gradually accumulated. The guarantee would not be able to cover up for the debt. There is a risk towards the debt if the inability to pay is not solved quickly. As for the duration of payment period, if total yearly payment is less, then it would indicate the ability of the client to pay for the loan. If there is a problem in the payment of the loan installment, the client should lengthen the payment period which would decrease the regular amount. Regarding guarantees aside from the mortgage, the accompanying debtors and other non-mortgage guarantors will serve to decrease the risk towards any problem in the future.

As for the policy of debt collection/development for housing loans, the bank should have a clear objective in compromising the debt to avoid increasing problems of loan non-payment. It has to implement immediate solution to any non-payment problem, prioritize the problems, analyze the causes and set up the guideline for an efficient settlement of the problem. There should be an emphasis on providing assistance to the debtors to enable them to finally repay the bank, whether or not the clients could still stay within the system or could compromise with the bank. The bank should create confidence with the clients by building a good relationship with them and the bank officer should serve as good adviser to the clients besides having good negotiating and psychological skills with them.

As for the clients, if there is any loan repayment problem, they should immediately contact the bank or the bank officer to inform the causes of the problem and also, to find the means to solve the problem in cooperation with the bank. Every financial institution has a guideline to settle the problem together with the clients using several ways depending on different policies and conditions of each client. The clients should contact the bank to negotiate debt settlement since negotiation is part of the process between the debtor and the creditor having similar benefits and conflicts. Recommendations from each side would provide final conclusion to their differences and at the same time, would allow them to accept each other's opinions. Consequently, this would facilitate maximum benefit and satisfaction to both sides, and practical enough to be implemented based on the agreement of an acceptable period of time over the possible causes and effects.

Guidelines for solving the problem of non-performing loans should be examined to benefit both financial institutions and clients. Debtors should have the knowledge and understanding of debt compromise. They have to negotiate with the bank officers regarding the ability of the bank to reduce the problem of non-performing loans thereby, contributing to the improvement of the economic situation of the country.