

## Bank Sector – Neutral

News update

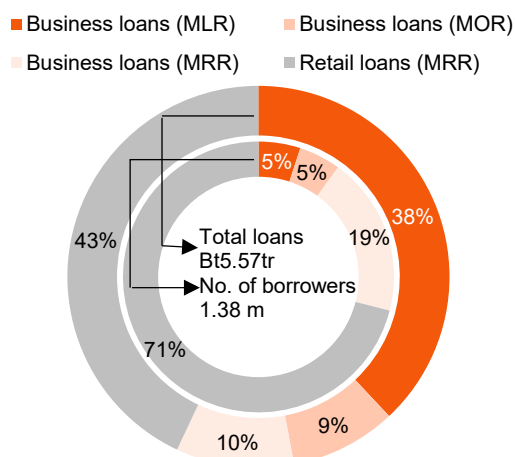
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### MoF is proposing forbearance plans

- **Scheme for early overdue housing and auto HP loans**
  - **Interest payment holiday and 50% cut in installment**
  - **Should be supported by the government and BoT**
  - **Initially viewed as not a negative scheme**
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- The Ministry of Finance (MoF) is currently in discussions with the Thai Bankers' Association and the Bank of Thailand (BoT) to introduce a forbearance scheme aimed at supporting vulnerable retail borrowers.
  - This scheme would allow mortgage and auto hire-purchase (HP) borrowers with special mention loans (30-90 days past due) and non-performing loans (NPLs) less than one year old to defer interest payments for three years, along with a 50% reduction in principal and extension of repayment terms. The target groups include borrowers with overdue housing loans and auto HP loans, with outstanding balances of less than Bt3m and Bt800,000 respectively.
  - The MoF anticipates that this scheme could benefit around 1 million fragile borrowers in the banking system. The scheme will not apply to non-bank. It is believed that this initiative aligns with the government's broader strategy to address the household debt issue.
  - As of 2Q24, stage 2 housing loans for 28 commercial banks under BoT supervision amounted to Bt144bn, or 5.27% of total loans, with NPLs totaling Bt101.4bn, or 3.71% of total loans. For auto HP loans, stage 2 and NPL amounts stood at Bt169.4bn and Bt25.3bn, representing 15.09% and 2.26% of total loans, respectively.
  - The implications for banks are as follows:
    - Income Recognition Impact:** Borrowers classified as NPLs have already missed interest payments, so banks are not currently recognizing income from these loans. For SMLs, however, interest income continues to be recognized on an effective interest rate (EIR) basis. The disparity between EIR-based interest income and actual cash inflows is recorded as accrued income. This scheme could result in lower EIRs and the continued recognition of interest income.
    - Internal Rate of Return (IRR) Impact:** Extending forbearance and reducing principal may lower the internal rate of return (IRR) over the loan's duration, potentially resulting in a reduced effective interest rate (EIR) and the recognition of interest income. However, the measures could help slow the migration of Stage 2 loans to NPLs and facilitate the recovery of existing NPLs. If these loans eventually recover, the overall cost impact may be less severe than if banks opted for complete NPL write-offs or distressed asset sales.
    - Regulatory Support for Provisioning:** Banks are likely to participate in the scheme if the BoT provides special provisioning treatment. However, it is worth noting that the COVID forbearance programs were different, as they allowed good debtors to participate if they were adversely affected by the country's shutdown. In this round, the plan targets only SML and NPL borrowers who have already missed their debt obligations with the banks.
  - Additionally, there are discussions about a potential 50% reduction in the Financial Institutions Development Fund (FIDF) fee to help banks offset the costs associated with these forbearance measures. However, FIDF debt could face higher interest expenses due to delayed settlement.

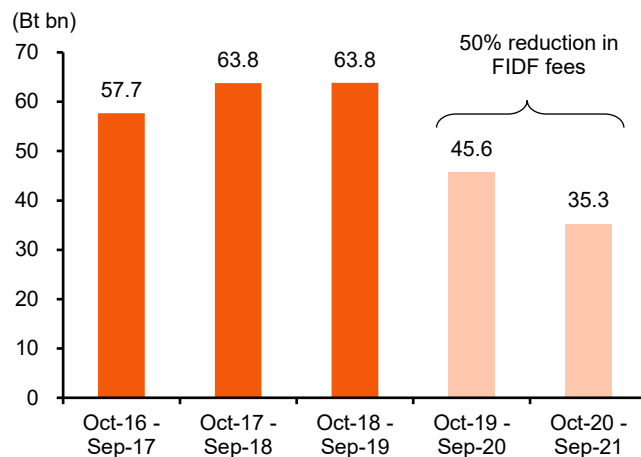
- Referred to the 50% reduction in FIDF fees during Covid outbreak periods in 2020-2022, banks were cutting M-rates down by 0.40bps. Exhibit 1-3 below illustrate that benefits from the cut in deposit levy was being passed through to end borrowers.

**Ex 1: Borrowers Under M-rate As Of 2020**



Source: Krungthai Compass

**Ex 2: FIDF Fees**



Source: Krungthai Compass

**Ex 3: Net Impact**

Bt bn	2020
Total loans on M-rate	5,570.00
Impact of 40bps cut in M rate	22.28
FIDF cost savings (Oct 2019- Sep 2020)	20.21
Net impact	(2.08)

Sources: Krungthai Compass, Thanachart estimates

- We need to understand the full details of the forbearance plan. Initially, we do not view it as a negative scheme. With expected support from the Bank of Thailand, the scheme should specifically target borrowers who are vulnerable and in need of additional financial assistance. Otherwise, it could encourage moral hazard, with borrowers intentionally missing payments to benefit from a principal reduction. We maintain our NEUTRAL weighting, with KTB and TTB as our top sector picks.

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