



FUND OF PROBLEM LOANS  
ACQUISITION. MANAGEMENT. SALE.



# THAILAND'S EXPERIENCE IN NPL RESOLUTION Activities of TAMC

# I. Preconditions for the Creation of TAMC

## The Beginning of the Asian Financial Crisis

Until the Asian financial crisis, Thailand experienced prolonged and relatively stable economic growth, averaging 8.2% per year from 1980 to 1995. The mid-1990s saw a rapid influx of foreign capital into the country due to market liberalization and high interest rates. This led to a 25% growth in lending from 1990 to 1995, particularly for real estate projects, which in turn caused a real estate bubble.

The first signs of weakening in the real estate market appeared in 1996, when a major developer failed to service its foreign debt.

Meanwhile, export growth, which had averaged 19% per year from 1990 to 1995, dropped to zero. Additionally, a commercial bank collapsed, which was heavily involved in real estate loans. After fraudulent activities were uncovered, the head of the bank resigned, and control of the bank was taken over by the Bank of Thailand (the financial regulator). The bank scandal, combined with the decline in exports, led to pressure on the local currency – the Thai baht. As a result of a massive withdrawal of deposits, in June 1997, the Thai authorities suspended the activities of 16 financial companies

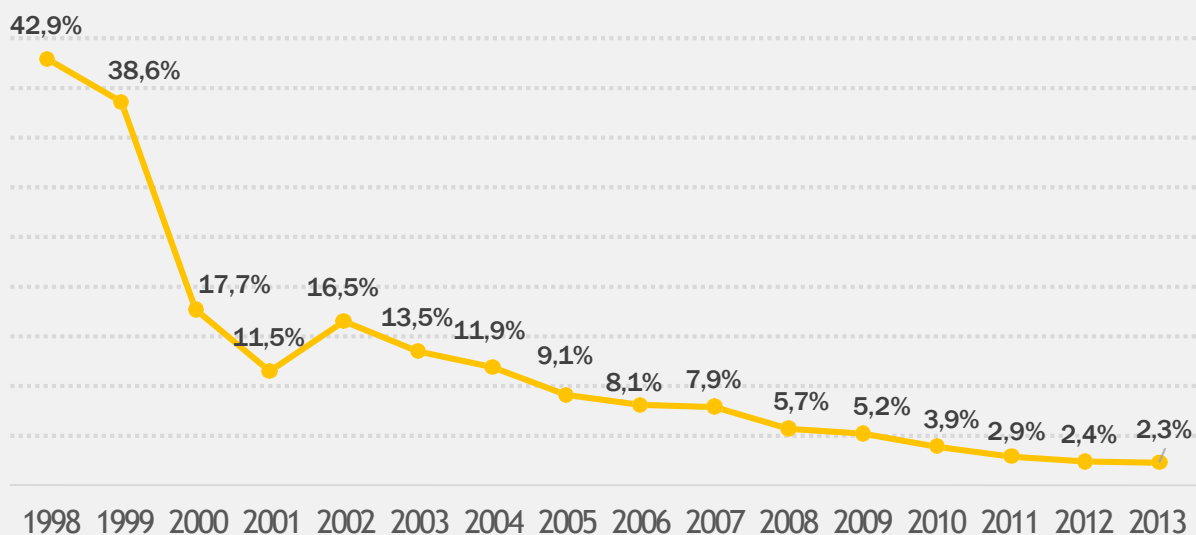
# I. Preconditions for the Creation of TAMC

## The Beginning of the Asian Financial Crisis

According to the World Bank, Thailand exhausted its foreign currency reserves in an attempt to defend its currency against the IMF's recommendations. On July 2, 1997, the government allowed the baht to float freely, which caused the currency to depreciate from 25 to 30.32 baht per US dollar on the same day.

The fall in the baht significantly affected the operations of Thai corporations, particularly those that had taken out foreign loans without hedging against currency risk. In August 1997, the Bank of Thailand suspended the activities of another 42 financial companies and also requested assistance from the IMF.

### Dynamics of the NPL Share in the Loan Portfolio of Thailand's Banking Sector



Источник: Всемирный банк

# I. Preconditions for the Creation of TAMC

## IMF Assistance Program

The IMF financing package amounted to USD 17.2 billion. The assistance package to Thailand included three main components:

**1,Restructuring the financial sector.**

**2,Fiscal and monetary policy.**

**3,Exchange rate policy.**

The financial sector restructuring involved guaranteeing deposits, supporting liquidity, liquidating insolvent financial institutions, and structural reforms.

To manage the 58 suspended financial companies, the government established the Financial Sector Restructuring Authority (FRA) and the Asset Management Corporation.

The FRA began selling liquidated assets through auctions in February 1998. The Asset Management Corporation was designated as the final buyer at FRA auctions.

Government Measures to Address NPL Growth.

The suspended financial companies were required to submit restructuring plans to the Financial Sector Restructuring Authority (FRA) by the end of 1997. FRA approved recovery plans for only two companies. For the remaining 56 companies, a decision was made to liquidate them.

The liquidated companies accounted for approximately 14% of the financial sector's assets. FRA began selling these assets at auction in February 1998.

The Asset Management Corporation was designated as the buyer of last resort at FRA auctions. Its tasks also included the further management, restructuring, or sale of the assets of bankrupt financial institutions.

# I. Preconditions for the Creation of TAMC

## Government Measures to Address the Growth of NPLs

In June 1998, the government also established the Corporate Debt Restructuring Advisory Committee (CDRAC) to address the issue of non-performing loans (NPLs).

Initially, CDRAC focused on the largest problematic borrowers. By the end of 2002, CDRAC had supported the restructuring of NPLs totaling 2.8 trillion baht (USD 64.7 billion).

In most cases, CDRAC did not reduce the total debt of the borrower to the creditor. The restructuring was primarily carried out through the provision of grace periods for repayment or reduced interest rates. As a result, around 15% of loans reverted to the "non-performing" category in the early years of the program.

The government also encouraged the creation of Asset Management Companies (AMCs) by both private and public companies in Thailand to resolve the NPL issue. Between 1998 and 2002, four state-led AMCs were created to manage distressed assets from five state-owned banks. In the private sector, 12 AMCs were established between 1998 and 2001.

Since loans transferred to private bank AMCs still appeared on the consolidated financial statements of the banks, private banks were reluctant to transfer a large portion of their NPLs to AMCs. As a result, the level of non-performing loans in Thailand's financial sector remained high.

# II. Creation of TAMC

## Main Objectives of TAMC

The Thai Asset Management Corporation (TAMC) was established in 2001 through a Royal Decree to address the growing issue of non-performing loans (NPLs) that had arisen after the Asian Financial Crisis. This initiative was separate from the previously established Asset Management Corporation (AMC), which was tasked with purchasing devalued assets from bankrupt financial companies.

The creation of TAMC was necessary due to the persistent high levels of NPLs, which were hindering economic growth. Many financial companies had to focus on resolving these problematic loans rather than engaging in their primary business activities.

Furthermore, debt restructuring was not allowing borrowers to engage in new businesses or invest in new projects. Therefore, resolving NPLs was considered crucial for the recovery of the economy, which became a central political issue during the 2001 Prime Minister elections.

TAMC was entrusted with five primary objectives:

Transparent, fast, and efficient management of devalued assets.

Maximization of public benefits while managing assets.

Minimization of losses for the state and taxpayers.

Facilitating the recovery of businesses.

Ensuring fair and equal treatment of all parties involved in asset management.



# III. Activities of TAMC

## Capitalization, Management, and Pricing

The initial funding for the Thai Asset Management Corporation (TAMC) came from the **Financial Institutions Development Fund (FIDF)**. Additionally, the company issued 10-year guaranteed bonds to further support its operations.

The initial capital of TAMC was **1 billion baht** (approximately **22.3 million USD**).

TAMC was directly controlled by the **Ministry of Finance**, and its **board of directors** included government officials and representatives from the financial sector. The board was responsible for setting the overall policy and overseeing the company's activities. The **executive committee** was tasked with asset management and approving restructuring plans.

State-owned financial institutions and Asset Management Companies (AMCs) were required to transfer all doubtful loans to TAMC. For private financial institutions and AMCs, they were obligated to transfer large problem loans where claims were held by multiple creditors.

For **state-owned banks and AMCs**, the purchase price of the assets was based on the value of the collateral backing those loans.

For **private banks and AMCs**, the purchase price was the lower of two values: either the value of the collateral or the book value of the non-performing loans, minus any provisions made.

The **TAMC board** was responsible for determining the pricing methodology for **unsecured assets**.

# III. Activities of TAMC

## Buyout, Management, and Realization of Assets

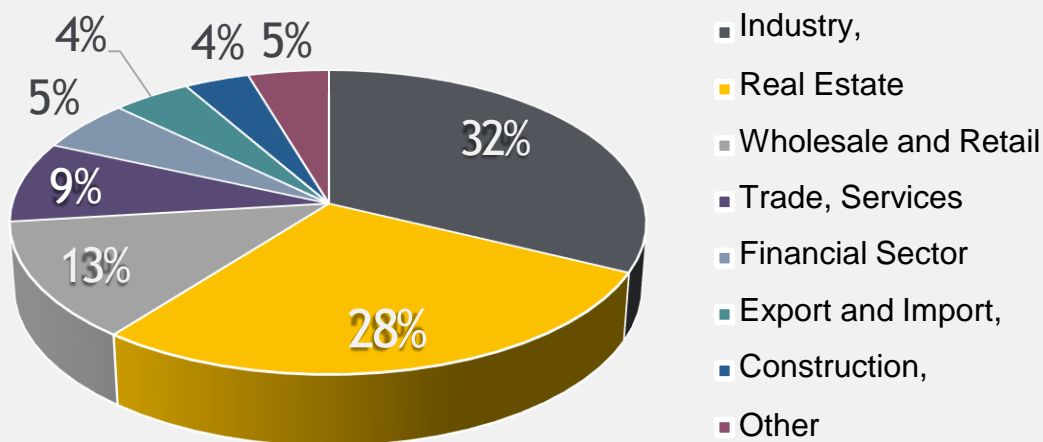
The transactions for the buyout of stressed financial sector assets by TAMC began in October 2001.

In total, the company acquired assets with a nominal value of 780 billion baht\* for 265 billion baht\*\*.

Thus, the average purchase price of the assets was 34% of their nominal value.

The majority of the assets (81%) were transferred to TAMC by state financial institutions and asset management companies (AMC).

### STRUCTURE OF TAMC ASSET PORTFOLIO BY INDUSTRY



Source: Supervision Report, 2003, Bank of Thailand

\* 17.4 billion USD

\*\* 5.9 billion USD



# III. Activities of TAMC

## Buyout, Management, and Realization of Assets

Like most government-owned Asset Management Companies (AMCs), TAMC managed the purchased assets through restructuring, debt collection, and the realization of collateralized property.

Debt or business restructuring was carried out for "viable" borrowers. About 69% of the loans transferred to TAMC were resolved through restructuring. Meanwhile, some loans were transferred to other AMCs for trust management.

For unviable companies and projects, TAMC carried out debt collection and subsequent realization of collateralized property. The company began selling property assets in the final years of its operations through auctions.

To support sales, the company actively used PR tools, including roadshows. In 2010, the company sold property assets worth a total of 19.5 billion baht\*, and in 2011, assets worth 10 billion baht\*\*.

Unlike the experience in other countries, the organizations that transferred their assets to TAMC shared joint responsibility with the company for the profits or losses from the transferred assets.

After resolving 99.9% of non-performing assets, TAMC ceased operations 10 years after its establishment, on June 8, 2011.

\*617 million USD \*\*327.9 million USD

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\*\* 327.9 million USD

# IV. Results of TAMC's Activities - Evaluation of Effectiveness

Despite TAMC settling debts on almost all of the loans it took on by the end of its operations, its effectiveness was evaluated ambiguously. The main criticism was that the company's portfolio was dominated by stressed assets from the public sector. This was attributed to TAMC's failure to reach an agreement with private banks on the purchase price of the assets.

Many were also concerned about TAMC's excessive powers, as borrowers had no opportunity to challenge its restructuring plans developed by the company.

However, experts from the Ritsumeikan Asia Pacific University positively assessed TAMC, linking its activities to the reduction of non-performing loans in the country's financial system.

Department of Corporate Development,  
Joint Stock Company "Problem  
Loan Fund" Sources of  
Information: The Thai Asset  
Management Company (TAMC),  
Mallory Dreyer, Yale University;  
Bank of Thailand's Annual and  
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