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Box Article

Debunking the Myth: Property Measures Have Led to Higher Loan Rejection Rates

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HIGHLIGHTS

- **The overall housing loan approval rate remains high at 74.2% in 1Q 2017.**
- **First-time house buyers continue to have access to financing.**
- **Rental as an alternative option to house-ownership.**

Myth 1: Housing loan rejection rates are as high as 60%

The overall housing loan approval rate remains high at 74.2%[1] (average 2012-2016: 74.1%). The approval rate is the ratio of the number of housing loan applications approved[2] by all banks in Malaysia to the number of housing loan applications received by the banks during the same period. In 1Q 2017, banks approved a total of RM22.3 billion of house financing to 90,137 borrowers. Of these, more than half was for buyers of affordable housing units priced below RM500,000.

Generally, housing loan applications were rejected if the borrower was already highly leveraged with weak credit history and had insufficient documentation to support ability to repay loan obligation.

Myth 2: First-time buyers are unable to obtain housing loans because of the impositions of macroprudential measures

The measures introduced by the Bank since 2010 were for two specific purposes: (i) curb excessive speculative activity in the housing market; and (ii) deter over-borrowing. The maximum loan-to-value ratio (LTV) of 70% introduced in 2010 is imposed only on borrowers with three or more outstanding housing loans. Therefore, this measure does not affect eligible first-time house buyers, who typically qualify for an LTV of up to 95% (including Mortgage Reducing/Decreasing Term Assurance). In fact, it improves the chances of first-time buyers getting a loan as it shifts financial institutions' focus away from the speculators. In 2016, about 72% of housing loan borrowers are first-time buyers of homes priced below RM500,000 (Chart 1).

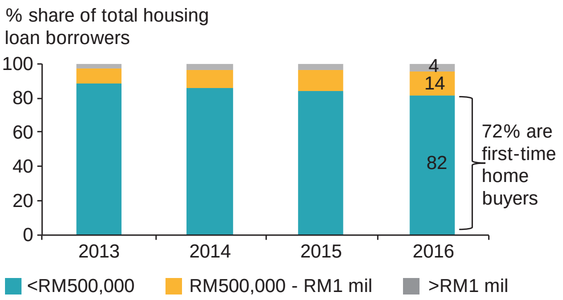
The maximum housing loan tenure of 35 years is more than sufficient for borrowers to settle their loans by retirement. Increasing the housing loan tenure will further add to the total cost of financing and also would not significantly improve one's debt service ratio. To illustrate this point, assuming the tenure for a housing loan of RM500,000 is increased from 35 to 40 years, the total cost of financing will increase by 17.4% or RM97,428 while the monthly instalment will only reduce by 4.4% or RM112 (Chart 2).

[1] This ratio is derived based on monthly data submissions from banks to Bank Negara Malaysia. The Bank notes that other sources have quoted different estimates based on broad surveys extended to a limited sample of developers.
[2] Regardless of whether it is accepted or subsequently cancelled by the applicant.

Developer interest bearing schemes (DIBS) are similar to adjustable rate mortgages, one of the key causes of the subprime mortgage crisis. These schemes should not be allowed as they encourage excessive speculative activity in the property market and cause artificial increases in house prices. Property valuers indicated that the price difference between houses with DIBS and without DIBS can be as high as 30%. Homebuyers generally were unaware of this fact due to lack of transparency and non-disclosure of material information.

Chart 1: Housing Loan Borrowers by House Price Range

Eligible Borrowers Continue to Have Access to Financing for Affordable Houses



Source: Bank Negara Malaysia and internal computation

Table 1: Comparison Table for Different Loan Tenures

Increasing Loan Tenure Will Further Add to the Total Financing Cost

	Loan tenure of 35 years	Loan tenure of 40 years	Difference
Loan amount (RM)	500,000	500,000	
Financing rate (%)	5	5	
Monthly instalment (RM)	2,523	2,411	112
Total cost of financing (RM)	559,844	657,272	**97,428**
Difference in total cost			17.40%

Source: Internal computation

Myth 3: Roof over one's head = Need to own a house

Buying and owning a house is a long-term commitment and represents a significant financial obligation for an individual. Rigorous financial planning and the availability of sound financial buffers against unexpected events are critical. To illustrate this point, the table below shows the monthly obligation associated with the purchase of a house priced at RM300,000. For a household earning RM5,000 a month, there is very little amount of money left for savings or emergencies after deducting the monthly instalment for the housing loan and monthly household expenditures.

Table 2: Illustration on Residual Income

Owning a Home is a Significant Commitment

	RM
Assumed household monthly income	**5,000**
Net monthly income after statutory deductions	**4,272**
Housing loan (RM300, 000) monthly instalment*	1,283
Household monthly expenditures**	2,946
Residual monthly income for savings and emergencies	**43**

*Based on 35-year loan tenure, loan-to-value ratio of 90% and lending rate of 5%
**Based on Household Expenditure Survey 2014 (Department of Statistics Malaysia)

Measures to promote responsible lending and borrowing are intended to deter borrowers from incurring debts that could lead to financial hardship. It minimises the risk of borrowers having to carry an excessive debt burden, and losing their homes to foreclosure if they are unable to service the debt.