Malaysia - Household Indebtedness

- The household borrowing has been on a rising trend over the last 10 years, increasing at an annual rate of 12.5% as of December 2011. Household debt to GDP stands at 76.6%

- Experiences of other countries have shown that excessive borrowing and rapid build-up in household indebtedness had undesirable impact on the economy

- To ensure that household sector does not become a source of vulnerability to the financial system and economy, BNM has put in place a comprehensive range of pre-emptive measures which includes the issuance of the Guidelines on Responsible Financing

Comprehensive and pre-emptive strategies to preserve household sector resilience

Prudential Measures

- Loan-to-value ratio of 70% applied to 3rd housing loans onwards
- Increased risk-weights for housing loans with LTV >90% and personal financing with tenure >5 years
- New credit card guidelines
  - Higher income eligibility - from RM18k to RM24k p.a.
  - Limit no. of cards and credit limit for cardholders earning ≤RM36k per annum

POWER! programme by AKPK

Targeted financial education for new borrowers and young adults aged between 18 to 30 years

Guidelines on Responsible Finance

-Suitability and affordability assessment

- Disclosure and marketing practices

Intensify surveillance and supervisory activities

Guidelines on Responsible Finance

Objectives:

- Inculcate responsible lending practices by financial institutions in their dealings with individual customers
- Promote responsible lending and borrowing behaviours to foster a healthy and sustainable credit market which in turn contributes to economic and financial stability
- Further strengthen the protection of consumers' interests

Scope:

- All new and additional financing offered to individual customers:
  - Home financing;
  - Vehicle financing;
  - Credit and charge cards;
  - Personal financing including overdraft facility; and
  - Financing for the purchase of securities, except for share margin financing governed by BURSA Rules

Affordability Assessments

- FIs to ensure that customers are offered financing products that they can afford to repay in full throughout the financing tenure, without recourse to debt relief or substantial hardship

- Debt service ratio (DSR) =

$$\frac{\text{All debt repayment obligations (from banks and non-banks)}}{\text{Income after statutory deductions (tax, EPF, SOCSO)}}$$

- FIs required to set a prudent level of DSR
  - prudent enough to prevent the customer from becoming over-indebted
  - allows sufficient buffers for the customer's daily and essential expenditures and contingencies, having regard to the relevant circumstances of the customer

- Consumers who have the ability to repay will continue to have access to financing