Lending rules for housing may be relaxed but analysts are wary

BY **ADELINE PAUL RAJ**

The new government's recent rhetoric on housing loan requirements being too strict for first-time homebuyers suggests that banks can expect some changes or new guidelines on the matter.

Two weeks ago, Prime Minister Tun Dr Mahathir Mohamad said the government would review current lending terms for housing loans and look at introducing a mechanism to enable young Malaysians to buy their first home.

"We found that banks are too strict with housing loans and this makes it difficult for people to own a house," he told reporters.

The government wants lending guidelines relaxed to enable youth and those from the B40 and M40 groups to buy their first homes. Recall that housing was one of the issues the Pakatan Harapan government promised to tackle under its election manifesto.

Last week, Housing and Local Government Minister Zuraida Kamaruddin said she had met Bank Negara Malaysia officials on the matter and would seek guidance from commercial banks as well.

Analysts whom *The Edge* spoke to are wary about banks potentially being "forced" to lend to the lower-income segment, pointing out that banks are already lending to those who qualify in that segment.

"You want to be careful not to create a new set of risks for banks that they have not faced in a long time. As it is, banks are generally wary of lending to youth, given that the biggest number of bankruptcies come from this group," one remarks.

In Malaysia, those between the ages of 25 and 44 form the biggest group classified as bankrupt.

While it remains to be seen what changes may come, some analysts say it is possible that the general 60% debt service ratio (DSR) — where borrowers' total debt cannot exceed 60% of their take-home pay — may be relaxed. A borrower's ability to get a loan is tied to their DSR. Bank Negara had capped the DSR for civil servants at 60% effective 2012.

"This was [introduced] mainly to keep lower-income groups from over-borrowing. So if the government is willing to relax that a bit, then I guess it could make a difference to this group. But I think the government may then also need to provide guarantees in case of defaults. We've already tried a lot of things and reached a point where there is even an oversupply of affordable housing. The reality is that Malaysians are highly geared," says another banking analyst.

His main concern as the government reviews lending terms for youth and the lower-income group is about the borrower itself.

"Yes, there is probably some room for borrowers to gear up if you loosen the 60% DSR, but the reality is that it was imposed for a reason. It's really the gearing of buyers that I'm worried about. And if many default, there'll be asset quality issues for banks," he remarks.

Back in 2012, Thailand's then populist government introduced a first-car buyer scheme, especially for low-income earners, that turned out to be a major failure. It led to huge non-performing loans for banks just two years later with there being over 100,000 defaulters.

"You don't want to get into that kind of situation," an analyst who cited that example remarks.

Data from the Malaysia Department of Insolvency shows that housing loan defaults were the second highest after car loan defaults in 2010, 2011 and 2013. In 2015, seven people were going bankrupt every day from not being able to service their housing loans.

Still, the gross impaired loan ratio in residential mortgages for banks has been low, registering 1.1% as at April.

As it stands, the profit margins for banks in the residential mortgage space are thin, given stiff competition. To make mortgages more profitable, banks tend to tie them in with other products for the borrower. "So they have to increase their cross-sell ratio. But with the lower-income group, there's hardly any cross-sell you can do [profitably] ... so the margins in the affordable segment are definitely lower," an analyst says.

Some in the investment community think

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it is the development financial institutions (DFIs) that should be tasked with focusing on the lower-income group, given that they have a national development agenda.

"Instead of the commercial banks, why can't DFIs, the likes of Bank Rakyat and Bank Simpanan Nasional, take on that responsibility? Profitability shouldn't be the primary objective for them and yet they extend so many personal loans and make fat margins off them. They should concentrate on mortgages instead," says the first analyst.

Currently, many banks are keen on offering end-financing for affordable homes. "But this is not necessarily to the lower-income group as it depends on what each deems as 'affordable'," observes another analyst, adding that banks generally consider houses in the range of RM250,000 to RM750,000 as affordable.

Other analysts insist that relaxing lending terms is not the solution. "How much more relaxing can you do? It's a question of affordability and the problem lies with the property developers, not banks. Developers need to come up with more truly affordable housing ... this would be more effective," says one.

Zuraida says different suggestions have been brought up and, among others, the ministry is studying the possibility of lending based on a borrower's projected income of two to three years instead of the current income.

A top official at a bank says lenders are reluctant to offer the lower-income group loans as many do not meet the DSR requirement. He suggests that the government should have a separate classification for buyers of affordable homes.

"The criteria should be different from that of general housing. The terms have to be more flexible. For example, you should let banks look at households based on combined income. So if a husband and wife both work but the husband is the one taking up the loan, you need to let banks consider the wife's income too ... but only for their first home.

"You can also let banks allow for borrowers' variable income to be taken into consideration. Some borrowers, especially the young, have a regular job but may also do other things like online sales that give them income. Currently, banks can't really look at these other incomes." E