Affordability, overhang and foreclosures

Bank and developers have different definitions of loan rejection

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JOHN is interested to buy a RM1.2mil property. Together with rebates and all, the real value of the house is RM1mil and John is aware of that.

John goes to the bank, and based on the sales and purchase agreement, applies for a bank loan of RM1.08mil, or 90%.

But the bank gives him an 80% loan amounting to RM960,000. John walks away from the purchase.

The developer blames "stringent financing rules" for the aborted purchase. To the bank, it has approved the loan.

For the past couple of years, developers and banks have their own definition of loan rejection. Developers say the loan rejection rate is as high as 70%. According to Bank Negara statistics, loan rejection is 25.4%.

At a media briefing on "Household debt and house financing in Malaysia" on Oct 24, Bank Negara's Financial Surveillance Department director Qaiser Iskandar Anwarudin said 54.4% of household debt is for housing as at June 2019.

If non-residential properties were to be included, this rises to 60.9%. This is the debt carried by Malaysian households, or families, for the purchase of properties.

Qaiser says 84% of housing loans are extended by banks, while 16% are by other lending, but non-bank, institutions.

"About 70% of a bank's income is generated by its lending activities.

Housing debt: Qaiser says 54.4% of household debt is for housing as at June 2019. — Bernama

It is in their best interest to lend and housing loan is a significant portion," Qaiser says.

The Real Estate & Housing Developers' Association Malaysia (Rehda) has a different definition of loan rejection/approval.

Rehda (Selangor branch) chairman Zulkifly Gharib says a developer has a register of potential buyers who apply for financing, and a register of those who make successful purchases.

"If there are 100 prospective buyers, but 70% walk away from a purchase, to us, that is a 70% rejection," says Zulkifly, who is Glomac Bhd's chief operating officer.

Zulkifly says "technically" the loan may be approved, but it did not result in a sale. As long as a sale is not concluded, that is considered as a rejection.

A source says Rehda has "never disputed" Bank Negara's approval rates of more than 70%.

"But we are concerned about the high number of potential buyers who do not carry on with the purchase because they do not have sufficient downpayment," the source says.

The source says most buyers want a 90% loan margin.

In order to ensure a sale goes through, the source says a minimum 10% rebate is given during the current Home Ownership Campaign but the real price is not stated in the sales and purchase (S&P) agreement.

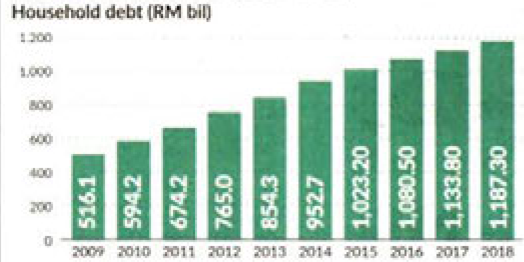
The source says although John's real price is RM1mil, the developer has listed it in the S&P agreement as RM1.2mil "to help the buyer cover the downpayment."

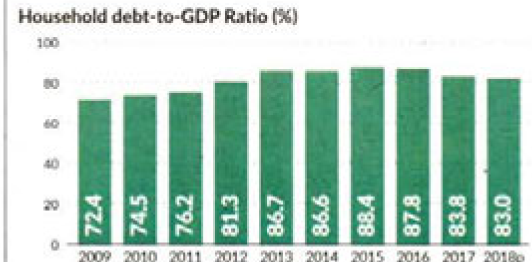
"Some buyers cannot even afford a RM50,000 downpayment," the source says.

"Let us look at the situation from the perspective of the potential buyer, from the bank's perspective. And from the developer's.

"As a developer, we ask ourselves... what can we do to help out. We understand the risk from the bank's perspective, but look at the industry and its linkages to other industry," the source says.

Rising household debt (2009 - 2018)





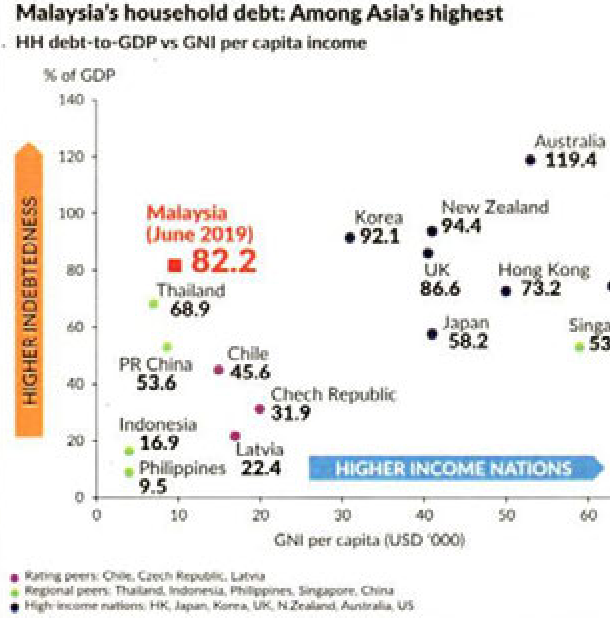
Source: Bank Negara Malaysia

Foreclosures (3Q2018 & 2019)

	Preceding year quarter 3Q 2018	Current year quarter 3Q 2019	% change	Preceding year to date 2018	Current year to date 2019	% change
No. of foreclosure case	8,760	9,294	**+6%**	23,658	26,563	**+12%**
Foreclosure value (RM mil)	3,946	5,192	**+31.6%**	10,889	14,383	**+32%**

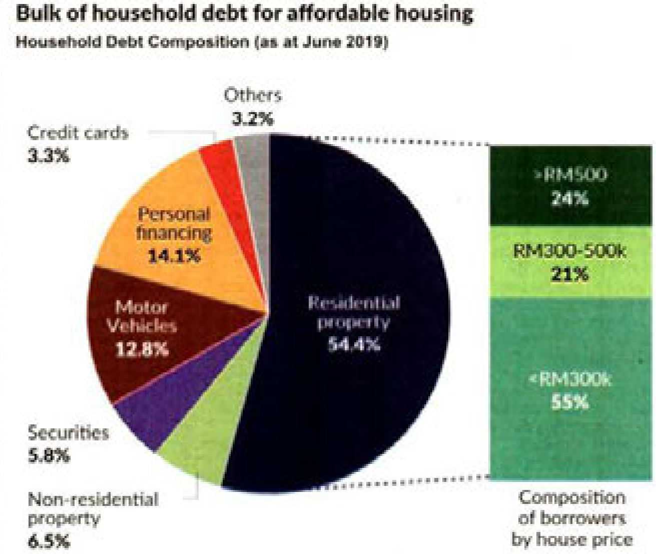
Source: AuctionGuru.com.my

Malaysia's household debt: Among Asia's highest



Source: Bank Negara Malaysia, National authorities, World Bank, BIS

Bulk of household debt for affordable housing



Note: Loans for wealth accumulation are loans for the purchase of residential property, non-residential property (including shoplots) and securities (including ASB units)

Strict financing versus high house prices

While developers blame "stringent" lending/financing rules for the slow sales, Bank Negara's surveillance department says it is the high price of housing that remains a "major hurdle".

Qaiser says the main issue is housing affordability. Based on Bank Negara estimates, most Malaysians are able to buy up to RM280,000. But the average price of new properties launched nationwide is significantly higher, at RM420,000. The level is higher at individual state level.

This affordability issue is supported by the median multiple ratio, says Qaiser.

"A house is considered affordable if it is not more than three times the household income. In 2012, it was 3.9 times and in 2016, it was 4.8 times.

"This indicates that houses in Malaysia are seriously unaffordable, even by international standards," Qaiser says.

He says debt levels have moderated from the 2015 peak of 86.9% of GDP and recent growth in debt has been more aligned with income growth. However, the aggregate level of indebtedness among Malaysian households remains high relative to regional and rating peers, and high-income countries like Hong Kong, Japan, South Korea, Britain, New Zealand, Australia and the United States.

Widespread affordability issues

He adds that the affordability issue is widespread. It is not "contained" in certain areas but is most obvious in Selangor, Kuala Lumpur, Johor and Penang. This has contributed to the elevated levels of unsold properties in Malaysia, Qaiser says.

Qaiser says 73% of unsold properties are considered as not affordable, according to the different states, based on data from the National Property Information Centre (Napic).

According to Napic's latest figures in Property Overhang 2Q19, the ringgit value of unsold completed housing, including serviced apartments and small offices home offices is RM35.1bil.

Qaiser says the main reasons why Malaysians cannot afford a house are:

> Properties not aligned to what people can afford; and

> A mismatch between income growth and property prices.

He says although there is a downtrend seen in the Malaysian House Price Index, and more units priced below RM300,000 are making their way into the market, "this rebalancing will take some time".

Giving his perspective on the financial system, Qaiser says there are pockets of risk in the financial system.

There are those earning less than RM3,000 a month who only have 0.6 times assets to their debt.

This group is particularly vulnerable, although at aggregate level, it looks all right.

Qaiser says housing loans impairment remains low at 1.3%. Bank Negara is seeing a slight pick-up in default among properties valued at more than RM500,000 and among those with variable income.

"There is an uptick. We started seeing this last year and we continue to see it this year," he says.