

# Can housing trusts solve the affordable housing dilemma?

- **Creating** an Affordable Housing Trust Fund will allow buyers a source of downpayment financing and aid in monthly loan repayments
- **AHTF** will also take on key role of developing and building more affordable homes in suitable locations for the M40
- **If EPF** takes on the AHTF role, more workers will be encouraged to subscribe, boosting the fund's dwindling subscriber base

**C**reating homes that the people can afford is an ongoing problem in every country. Some have found a degree of solace in creating trusts to oversee both the end-financing and development funding of affordable homes.

The Pakatan Harapan (PH) government's manifesto of building one million affordable homes within the decade has been scoffed as a tall order. The hurdles in the way of achieving this largely stem from funding and financing.

How will the government fund the construction of so many homes, given its limited coffers? With reportedly high loan rejection rates, even if the homes were built, how will the rakyat afford to buy them?

As cost of living rises and household debt hovers at 83%, meeting the downpayment is already a major hurdle.

At present, about 100,000 of the planned numbers have been met. But the remaining 900,000 needs at least RM250 bil to build. A tall order given the escalating expenditure as the PH government's finances are stretched through satisfying its many election promises, such as buying over four toll concessions for RM6.2 bil.

As such, could an Affordable Housing Trust Fund (AHTF) solve our housing woes?

Girish Ramachandran, executive director, 27 Advisory, which is a socio-economic transformation consultancy tells *FocusM* that the creation of an AHTF will aid in providing the financing required to realise the goal.

Girish, together with a group of like-minded individuals, are proposing a Housing Trust and Private Partnership funding model to ease the home financing burden for the target population of M40.

M40 refers to the middle 40% income group, whereby the median household income is RM6,275.

Based on the model, an AHTF should be set up to provide financing to meet downpayment obligations and provide loans at attractive interest rates.

The AHTF will also take on the role of developing and constructing affordable homes within the price range of the target market at selected locations.

"However, our proposal is still on the drawing board and we are working on the details of the mechanism to gain support from various stakeholders," he discloses.

AHTF will be a way forward to address not only the high loan rejection rates, but to address the fundamental affordability problem, whereby the rakyat cannot afford the initial payment for a home.

"There are a lot of schemes out there to rent a home, but home ownership is still the ultimate dream. Essentially, what we are missing is two factors, one is that a lot of people out there cannot get bank loans to buy a house because their credit worthiness is to the maximum," he notes.

He explains that low disposable income suggests that households are unable to come up with RM30,000 to buy an affordable house of RM270,000, which comprises the 10% downpayment plus fees and stamp duty.

"The second factor is that assuming they have the RM30,000, they can't get their loan with repayment of around RM1,300 approved because when you crunch their numbers, their ratios and CCRIS (Central Credit Reference Information System) ploughed into the system cannot give them that amount to pay towards the loan," he points out.

"So to solve the first problem, we are exploring this concept of forming an AHTF," he adds.

Girish sees the AHTF as a vehicle that will aid the first-time home buyer in the financing of the equity for the house by forking out the initial RM30,000 payment, effectively owning the home.

"Now, what this individual or couple do is decide on the agreements and they begin paying towards the equity of the house, which is about 30% of the home price. We believe in about seven years they will be able to do it.

"Some earlier, some later, and after that, they start paying towards the remaining 70% or to the normal loan," he reveals.

Girish reminds that the home will be co-owned by the purchaser and the AHTF, cemented by a signed agreement. He is quick to differentiate the AHTF scheme from the recent Property Crowdfunding (PCF) schemes entering the property financing market as 'you are a joint owner of the home with a trust.'

Under the PCF scheme, the buyer forks out the initial 30%, with a group of investors funding the remaining. The buyer is allowed to stay at the premises for five years, at the end of which he has the option of purchasing the home from the funders.

"The crux of the matter is that under our proposed AHTF model, the trust co-owns the home with the buyer. This is a lot safer than co-owning your property with a group of individuals," says Girish.

### Creating a healthy supply

Generally, housing trust funds are also tasked to look into the supply of affordable housing. Professor Dr Walter Tan, School of Economics and Management, Xiamen University Malaysia, notes that the prevailing issue in the affordable housing challenge is to ensure the supply of homes satisfies the demand.

"We need to look at the demand and supply of affordable housing first whereby demand generally outstrips supply. As long as the housing trust fund is able to increase the supply of affordable housing, particularly land acquisition and affordable housing construction, then it is a viable option," he notes.

According to Girish, the AHTF model will also look into the issues of creating sufficient supply of affordable homes. The proposed model will include an allowance for the trust fund to look into acquisition of suitable land for the construction of affordable housing stock. Construction of the homes can be managed via open procurement tenders.

"The model will allow the affordable housing projects to be brought into good urban areas, creating a mix in an integrated development area," he adds.

Tan points out that it is crucial to determine whether the housing trust fund is managed by the private or public sector.

"In the Malaysian context, the land belongs to the state government. It is important to ask then, how effective is the fund? It also depends on who can facilitate the provision of affordable housing by acquiring the land for development," he adds.

### Who will do it?

Girish reminds that the AHTF must be a government-led initiative, based on a government policy. In the 1920s in Singapore, the Singapore Improvement Trust was formed via the enactment of the Singapore Improvement Ordinance on July 1, 1927. A board of trustees was vested with the powers to carry out the provisions of the ordinance. The trust was created to improve the living conditions of the people and eliminate slums. The trust went on to construct homes for the public and create Singapore's first satellite town, Queenstown.

Funding for the trust came from an improvement rate levied on houses and land within the municipal area with an equivalent contribution from the government. The trust could also tap on a government fund set aside for slum clearance.

It was dissolved in 1960 and the public housing division was taken over by the Housing Development Board (HDB).

Girish points out that the AHTF must have access to a recurring stream of funds, such as a pension fund, Soeso or a private sector funding the trust through a REIT.

His proposed Housing Trust and Private Partnership Funding model must be a government-led body which will spearhead this initiative such as the Employees Provident Fund (EPF).

"The beauty of EPF is that most people are already contributing monthly towards the fund. So what you have is future income from one or maybe two persons per household, contributing towards EPF, and if you securitise that over the number of years till they reach 55 years of age, it assures a stream of income as long as the individuals in question are working," Girish elaborates.

Based on a back-of-the-envelope calculation, he suggests that a household with an earnings capacity circa RM3,000 per month will contribute about RM700 towards EPF. This is based on 11% employee contribution and 13% employer contributions.

"For a RM270,000 home, the household needs to service the loan with an instalment of around RM1,300. The problem is sometimes, making this payment on a household income of RM3,000 is difficult," he observes.

"But if it can come from their EPF contributions, the financial burden is eased and the household has a roof above their heads, without the need to rent. This solves the second problem of affording the housing loan repayments," he adds.

Girish, with over 25 years of experience in the field of audit, corporate recovery, corporate finance and management consultancy, notes that EPF may be a good fit to set up the fund as it has a recurring income stream from potential house buyers who are EPF contributors.

"If the model is structured around a return of 6-7% it will be a very viable project. EPF can also give out housing loans and make on that," he suggests.

Girish also points out that if this model proves viable, it will also aid in raising the number of EPF registrants which has recently been reportedly declining as more workers opt for the informal sector.

EPF CEO Tunku Alizakri Alias was recently quoted as saying the fund "may not exist one day" as a large number of the country's 15 million-odd workforce is expected to reach retirement age soon, but the number of new EPF subscribers has dropped an alarming 40% from 48% a few years ago.

This is a result of the digital economy. Income generated via online portals such as YouTube, blogging, Grab driving, freelancing and other sources of revenue are not accounted for as it falls through cracks of the taxation system and thus, they do not contribute towards the EPF either.

"If there is a system that allows them to obtain financing for a home purchase via an EPF-linked fund, it will also work to encourage more potential contributors to come forward," Girish points out.

### **Reiterating HBA's call for EPF to be financier**

The call to tap into the reserves of the national pension fund to enable first-time home buyers to finance the purchase of affordable homes was made earlier this year by the National House Buyers Association (HBA), generally reiterating a call made in 2017

and again during the 2019 Budget consultation with the Ministry of Finance last year.

The association's secretary-general Chang Kim Loong explains that the idea was mooted as a remedy to the prevalent high debt service ratio, poor credit history and insufficient documentary proof of income. According to the HBA's proposal, the financing option included EPF providing a 20- to 30-year loan to an EPF contributor who has been a member for at least 10 working years.

The qualification criteria outlines a monthly wage of RM5,000 and below, with a lock-in period of about 10 years. Chang suggests allowing a full withdrawal from EPF savings to facilitate first-time buyers' purchase.

"While this contradicts the government's stand of ensuring savings post-retirement, we are of the opinion that a property is a better form of savings or investment, than the potential cash payout from EPF," says Chang.

The borrower will make a predetermined monthly instalment to EPF, similar to conventional loan practices. His position as an EPF contributor hedges against default. Risk exposure is only in event of borrower's death or impairment.

"To ensure there is money in the contributor's account, in event of contingencies, we propose EPF takes on an endowment policy and MRTA or MLTA to safeguard its interest. This way, if the contributor passes away, the life insurance company pays the housing loan via the MRTA and MLTA," he adds.

In the event the borrower leaves employment, the residual value in the EPF account is used to set off against indebtedness. A member who is retrenched will be given a moratorium period to seek new employment.

"If the borrower chooses to sell the home, the sale proceeds will be deposited part or wholly back into the EPF account," Chang explains.

He believes the rakyat should be allowed to use the money in their EPF account, similar to having a fixed deposit account with a bank and obtaining a housing loan from the same bank.

Essentially, home buyers who are in need of a financing route for their home purchase will not end up with a high debt burden.

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