# Exercise prudence

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I REFER to the directive by Finance Minister Lim Guan Eng to commercial banks to grant greater loan access to first-time house buyers and small- and medium-sized enterprises (SMEs).

I am a retired banker who had been in the industry for 33 years. First of all, I believe the minister meant well in wanting to inject more liquidity into the market to jump-start the economy. In fact, he had been prodding the banks to ease lending for some time now, and his latest directive was his strongest plea yet. As a free-market economy, banks are profit-driven. When there's money to be made, banks would jump on the opportunity. Likewise, when a business proposition has potential risks, such as possibility of default, banks would exercise extreme caution.

Banks also need to make profits to be sustainable so that they can support the economy and the wellbeing of more than 160,000 employees. Lim's directive to banks is therefore an attempt to tamper with the self-correcting mechanism, or the so-called "Adam Smith's Invisible Hand" that underpins a free-market economy. Going down this road comes with inherent medium-to-long-term risks.

Take the property market. A large part of the imbalance is due to the mismatch in housing prices and affordability. The median household income has experienced slower increase, relative to median property prices. According to Bank Negara Malaysia (BNM) reports, the median property prices is five times higher than the median household income. The last thing banks want is for a borrower to default on payments.

Providing financing to borrowers who cannot repay the instalments is reckless, or worse, criminal negligence. This undermines financial stability, can bring about downgrading by rating agencies as well as erode investors' confidence in the long-run.

At the end of last year, BNM data showed there's an overhang of 35,000 residential units worth RM30 billion. If we include the unsold, under construction properties, there'll be 169,000 units valued at RM93 billion. On top of that, our household debt-to-gross domestic product ratio, which stood at 83 per cent last year, remains at alarming heights by global standards. These are not exactly sterling statistics on the country's economic health.

As for the SME segment, it is untrue that many businesses had problems securing loans. According to BNM statistics, the loan approval rate for last year was 94 per cent, with 89 per cent of the application approved within one month. Artificially pushing those figures higher could subject banks to be taken advantage of by unscrupulous borrowers who do not generate any value to the economy.

While I believe the minister has good intentions in asking banks to ease lending, this must be tampered with prudence and sound judgement. The sub-prime crisis that hit the United States between 2007 and 2009 should serve as a lesson to us. We can ill-afford to face this crisis, with the current economic headwinds.

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