Interest seen returning to mortgage market

BY **JOYCE GOH**

Interest seems to be returning to the mortgage market and interestingly, it is not just loan applications that have increased but the approval rate as well.

According to the latest Bank Negara Malaysia statistics, mortgage applications have been rising every month since the start of the year, with May registering a 20% increase year on year.

The approval rate for housing loans is also rising. May saw a 42.13% approval rate after dipping to 39.83% in March. The last time it fell below the 40% mark was in January last year when it recorded 38.34% — a historic low.

While the rate has gone up, it is still way below its high of 59% in 2013 and 66.34% nearly 10 years ago.

Is the latest data an indication that the economic situation is improving? Is this momentum sustainable?

A CEO of a banking group says it is still too early to make a definite assessment.

"Of course, we are all hoping that things will turn for the better, but I think it is still early [days] to conclude that this is a strong movement," he tells *The Edge*.

He points out that at the macro level, a couple of things are turning positive. "The stock market is [performing] better ... people may feel they have a bit more means. The overall [economic] growth rate has improved a bit. So, let's hope we are turning the corner, but it is still early [days]. It is not a full-fledged recovery yet, I would say ... but we hope this could be the turning point," the CEO says.

Things are clearly looking up following the cautious approach adopted due to uncertainties in the past two years, says Thoo Mee Ling, head of secured lending at OCBC Bank (Malaysia) Bhd.

"Yes, we can certainly expect better times ahead from the already improving scenario. The uptick in loan applications and approvals can be attributed to several factors such as developers launching more mid-range and affordable properties, and in the secondary market, sellers becoming more realistic in their asking prices.

"Perhaps most importantly, there is now a constant flow of buyers who are purchasing properties to stay, rather than as investment," she says.

Nazri Othman, acting head of group retail banking at RHB Banking Group, is optimistic about the performance of the property market, especially in the group's targeted areas, that is, the urban or market centres such as the Klang Valley, Penang and Johor Baru.

"We are confident that demand will remain sustainable as Malaysia progresses to become a developed nation with an increased rate of migration to urban centres, which provide higher earning power. The majority of developers are launching more affordable properties priced at RM400,000 to RM600,000. Therefore, applications for loans ranging from RM360,000 to RM540,000 are increasing," he says.

"Defaults in monthly repayments are not significant. Hence, banks have more room for better debt servicing ratio for more individuals."

The lacklustre property market and low rental yield, coupled with cooling measures introduced earlier, have led to reduced speculative activity, and more genuine homebuyers are entering the market, Nazri says.

"Currently, we are seeing more individuals buying properties for their own use rather than for speculation. Genuine property buyers basically have stronger credit ratings than speculators who buy for the purpose of reselling them later for a profit," he says.

"We have observed that some speculators are willing to dispose of their properties for lower gains. Some even sold them off at their purchase price. This segment is giving the secondary market a slight lift."

Vipin Agrawal, head of cards, retail assets and deposits at CIMB Group Holdings Bhd's consumer banking business, says there was an increase in property launches, which include affordable homes under the PR1MA housing programme, in last six months.

"Property fairs were held relatively more frequent. As a result, the demand for loans increased and is expected to remain so for the rest of the year," he says.

Loan approval rates had dropped after Bank Negara introduced stricter lending rules a few years ago. The rules include imposing a maximum loan-to-value ratio of 70% on borrowers with three or more outstanding housing loans while property buyers no longer have the option of taking loans for longer than 35 years.

Bank Negara, in its 1Q2017 quarterly bulletin, notes that the measures, introduced in 2010, were aimed at curbing excessive speculative activity in the property market and deterring over-borrowing.

CONTINUES ON PAGE 26

Curbing speculation helps first-time homebuyers

FROM PAGE 23

"The maximum loan-to-value ratio of 70% is imposed only on applicants with three or more outstanding housing loans. Therefore, this measure does not affect eligible first-time house buyers, who typically qualify for an loan-to-value ratio of up to 95% (including mortgage reducing/decreasing term assurance)," the central bank says.

"In fact, this improves the chances of first-time homebuyers getting a loan as it shifts financial institutions' focus away from speculators. Last year, 72% of housing loan borrowers were first-time buyers of homes priced below RM500,000."

According to National Property Information Centre data, the value of residential properties transacted rose to RM16.39 billion y-o-y in 1Q2017 from RM16.25 billion. The number of residential property transactions dropped to 46,934 from 49,608. This implies that the transactions in the first half of the year were from the segment with a higher value.

It is worth noting that the stamp duty for real estate valued at more than RM1 million will be increased to 4% from 3% effective Jan 1 next year, as announced under Budget 2017.

Industry players believe that although this may further dampen the high-end property market, it could boost the sales of million-ringgit homes until the end of the year.

BANK NEGARA MALAYSIA

Mortgage approval rate