

Banks shouldn't help people buy houses they can't afford

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LETTER | We appreciate the finance minister's focus on real issues affecting Malaysians. The affordability of homes is a major concern for any developing nation. However, we believe his recent **suggestion** that banks aid first-time house buyers may be dangerous. Here is why.

The root of the issue is not financing but the affordability of houses. Providing financing options for homes that people cannot afford in the first place does not make sense. Since 2018, Bank Negara has warned that houses in Malaysia are unaffordable by international standards.

As of late last year, the average home price in KL was RM773,000 while in Selangor, it is RM497,000. These prices are over 100% and 80% higher than a decade ago. Only a quarter of houses built since 2016 are priced below RM250,000.

There is a huge mismatch between property prices and the average buyer's income. As of 2018, the residential overhang in Malaysia increased to 30.6% in volume and 27% in value. High-rise units formed the bulk of the overhung units, representing 43.4% of the total.

An apartment that is worth about RM500,000 with a 4.5% interest rate and a 10% downpayment will result in a monthly mortgage of about RM2,200 plus.

Exclusive of maintenance fees. An average M40 household with an income of RM6,275 would have to spend a big chunk of their income on their mortgage.

In the long run, the government's suggestion to ease access to loans will only transfer the debt from developers to individual owners.

We would be irresponsibly allowing Malaysians to buy houses they shouldn't be buying at all. This will only lead to a mortgage crisis. Demands from the Ministry of Finance for banks to provide easier loans paints an unhealthy perception for the freedom of doing business in Malaysia.

Foreign investors and the market do not take kindly to news or hints that the MOF is trying to influence banks on how to manage their risk.

The above is issued by the Centre for Governance and Political Studies.

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