

Bank Negara: Housing loan approval rates remain high

OVERALL housing loan approval rates in Malaysia continue to be high, despite the misconception that cooling measures have led to an increase in loan rejections.

According to Bank Negara's quarterly bulletin, it was a myth that housing loan rejection rates are as high as 60%.

"The overall housing loan approval rate remains high at 74.2% (average 2012 to 2016: 74.1%). The approval rate is the ratio of the number of housing loan applications approved by all banks in Malaysia to the number of housing loan applications received by the banks during the same period."

Bank Negara says banks approved a total of RM22.3bil of house financing in the first quarter of 2017 to 90,137 borrowers.

"Of these, more than half was for buyers of affordable housing units priced below RM500,000.

"Generally, housing loan applications were rejected if the borrower was already highly leveraged with weak credit history and had insufficient documentation to support ability to repay loan obligation."

Separately, the central bank says it was a myth that first-time buyers are unable to obtain housing loans because of the impositions of macro-prudential measures.

"The measures introduced by the bank since 2010 were for two specific purposes, namely to curb excessive speculative activity in the housing market and deter over-borrowing."

Bank Negara says the maximum loan-to-value ratio (LTV) of 70% introduced in 2010 is imposed only on borrowers with three or more outstanding housing loans.

"Therefore, this measure does not affect eligible first-time house buyers, who typically qualify for an LTV of up to 95% (including mortgage reducing/decreasing term assurance).

"In fact, it improves the chances of first-time buyers getting a loan as it shifts financial institutions' focus away from the speculators."

According to the central bank, about 72% of housing loan borrowers in 2016 were first-time buyers of homes priced below RM500,000.

Bank Negara says the maximum housing loan tenure of 35

years is more than sufficient for borrowers to settle their loans by retirement.

"Increasing the housing loan tenure will add to the total cost of financing and also would not significantly improve one's debt service ratio.

"To illustrate this point, assuming the tenure for a housing loan of RM500,000 is increased from 35 to 40 years, the total cost of financing will increase by 17.4% or RM97,428 while the monthly instalment will only reduce by 4.4% or RM112."

The central bank says the developer interest bearing schemes (DIBS) are similar to adjustable rate mortgages – which is one of the key causes of the subprime mortgage crisis.

"These schemes should not be allowed as they encourage excessive speculative activity in the property market and cause artificial increases in house prices.

"Property valuers indicated that the price difference between houses with DIBS and without DIBS can be as high as 30%. Homebuyers generally were unaware of this fact due to lack of transparency and non-disclosure of material information."

Bank Negara realises that buying and owning a house is a long-term commitment and represents a significant financial obligation for an individual.

It points that rigorous financial planning and the availability of sound financial buffers against unexpected events are critical.

The central bank says it is aware that for a household earning RM5,000 a month, there is very little amount of money left for savings or emergencies (when paying for a home that costs RM300,000) after deducting the monthly instalment for a housing loan and monthly household expenditures.

"Measures to promote responsible lending and borrowing are intended to deter borrowers from incurring debts that could lead to financial hardship.

"It minimises the risk of borrowers having to carry an excessive debt burden and losing their homes to foreclosure if they are unable to service the debt," says Bank Negara.

