

## Bank Negara: Banks able to withstand slowdown in property segment

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*Star* [www.thestar.com.my/business/business-news/2017/11/17/bank-negara-banks-able-to-withstand-slowdown-in-property-segment](http://www.thestar.com.my/business/business-news/2017/11/17/bank-negara-banks-able-to-withstand-slowdown-in-property-segment)

KUALA LUMPUR: Bank Negara Malaysia (BNM) said overall, banks are assessed to be able to withstand a slowdown in the property segment due to their low exposure and; low and stable impaired loans ratio.

It said on Friday total loan exposures to property segments with acute oversupply (that is commercial property and high-end high-rise residential) only account for 8% of total bank lending; and (ii) impaired loans ratio for the commercial property and housing segments remains low and stable at 1.2% and 1.1% respectively.

“Internal stress test simulations done on large corporate borrowers also indicate that banks’ excess capital is sufficient to withstand potential credit losses from exposures to these borrowers, including large property developers,” it said.

BNM said banks continue to play an important role in providing financing to house buyers, with more than 70% of all housing loans being given to first-time buyers.

“In the first nine months of 2017, RM121.6bil of new housing loans were approved by banks, benefitting close to 300,000 borrowers. Of this, 60% were channelled for the purchase of houses priced below RM500,000,” it said.

The central bank said as for the commercial property sector, banks have become more cautious in lending to this segment due to the oversupply situation, as shown by the lower loan approval rates for the construction and purchase of commercial properties.

The banks’ current exposure to the commercial property segment remains small, accounting for 5.1% of total bank loans.

It explained these developments have reinforced the importance of existing micro- and macro-prudential regulations, such as the broad property sector concentration limit and single customer exposure limit as a means to ensure bank exposures to the overall property sector and individual property-related companies remain within prudent limits.

Furthermore, current loan-to-value (LTV) ratio limits also remain relevant to discourage speculative activity that drives up house prices and exacerbates the housing affordability problem.

“The bank (BNM) has also intensified monitoring of the banks’ underwriting and credit risk management practices, particularly those related to the commercial property sector. In some instances, banks are required to enhance internal processes to ensure that related risks are effectively mitigated,” it said.

Excesses in the property market can pose risks to the wider economy, it cautioned

BNM said according to the IMF (2003), historically, housing booms have been followed by busts about 40% of the time, with housing busts being associated with longer economic downturns and larger output losses compared to equity price busts.

Given that there are imbalances in both the residential and commercial property markets in Malaysia, this is a source of concern as the property sector has linkages to more than 120 industries, collectively accounting for 10% of GDP and employing 1.4 million Malaysians.