

FAQs on Responsible Financing

1. What are the objectives of the Guidelines on Responsible Financing (the Guidelines)?

- *The Guidelines are aimed at promoting responsible business conduct by financial institutions when they lend to borrowers. The Guidelines require financial institutions to reasonably ascertain that the applicants have the capacity to repay their loans throughout the financing tenure without substantial financial hardship.*
- *The Guidelines complement other pre-emptive measures introduced by Bank Negara Malaysia (the Bank) to prevent the household sector from becoming a source of vulnerability to the financial system and the economy.*

2. How do financial institutions decide whether to offer a housing loan to an applicant?

- *Before offering a housing loan to an applicant, the financial institution must be satisfied that the applicant can repay the housing loan while also paying for necessities and meeting other financial obligations such as repayments on existing debts as well as have sufficient financial buffers to deal with potential increase in interest rates and living expenses or decrease in the applicant's income.*

3. Will financial institutions offer housing loans to applicants who do not have salary slips?

- *In facilitating financial institutions to reasonably ascertain that the applicants have the capacity to repay their loans, it is important for applicants to provide documentation as proof of income. Alternative documents that can be provided include bank statement, unit trust account statement or other documents that indicate sources of income.*

4. Is a guarantor required for obtaining a housing loan?

- *The Guidelines do not impose the requirement to have a guarantor. However, some financial institutions may require a guarantor to enhance the credit standing of the housing loan applicant.*

5. Will lengthening the housing loan tenure from the current maximum of 35 years be beneficial to the borrower?

- *Not really. This is because it may not significantly improve one's debt service ratio. In addition, increasing the housing loan tenure will further add to the total cost of home financing.*
- *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 (Financing rate of 5% p.a)*

Table 1: Comparison Table for Different Loan Tenures

	Loan tenure of 35 years	Loan tenure of 40 years	Difference
Loan amount (RM)	500,000	500,000	
Financing rate (%)	5	5	
Monthly instalment (RM)	2,523	2,411	112
Total cost of financing (RM)	559,844	657,272	97,428
Difference in total cost			17.40%

Source: Internal Bank Negara Malaysia computation

6. What should applicants do before taking out a housing loan?

- *Before applying for a housing loan, applicants should work out roughly how much they can afford to set aside for the monthly instalments based on their income, living expenses and all existing debt repayment obligations.*
- *It is important to factor in future potential increase in the financing rate or any changes that might affect their income or expenses in the future (e.g. starting a family).*
- *Applicants should be mindful of other costs involved in purchasing and owning a house. The costs associated with the purchase of a property may include stamp duty, legal fees, loan processing fee and mortgage insurance. Apart from monthly loan repayment, house owners are responsible for property assessment tax, quit rent, fire insurance and maintenance fees, if applicable.*
- *Applicants should also do some research and take the time to compare the key features of housing loan packages offered by financial institutions such as the financing rate, lock-in-period and penalty, fees and charges.*