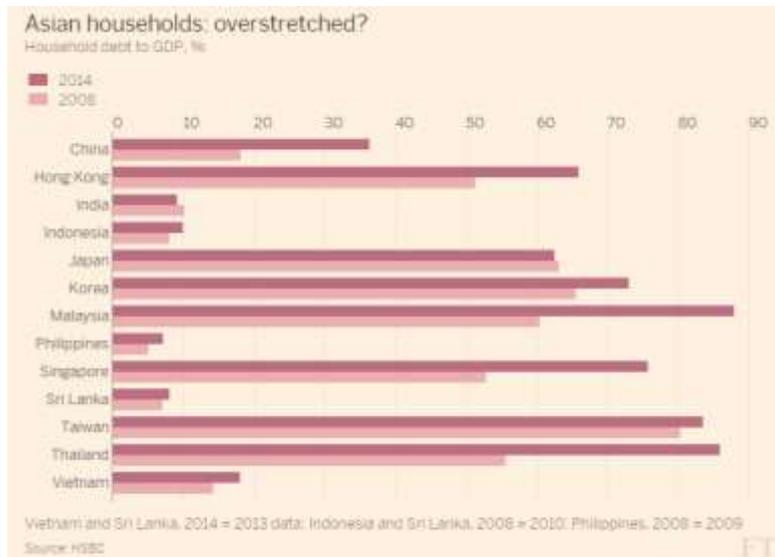


Lending Guidelines Too Strict?

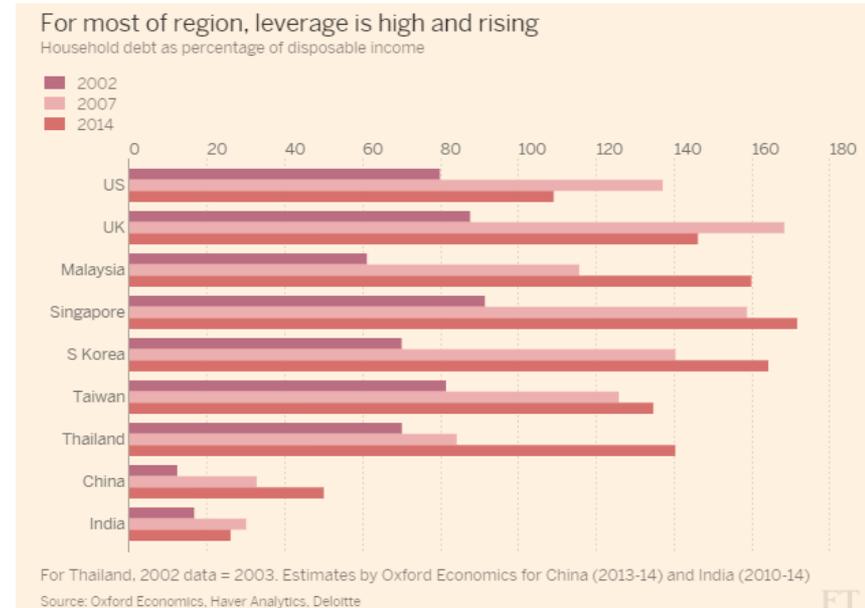
How can Banks and Developers work together to improve Mortgage Lending Rates to improve home ownership amongst ordinary Malaysian?

# ASIAN Households Debts : Overstretched?



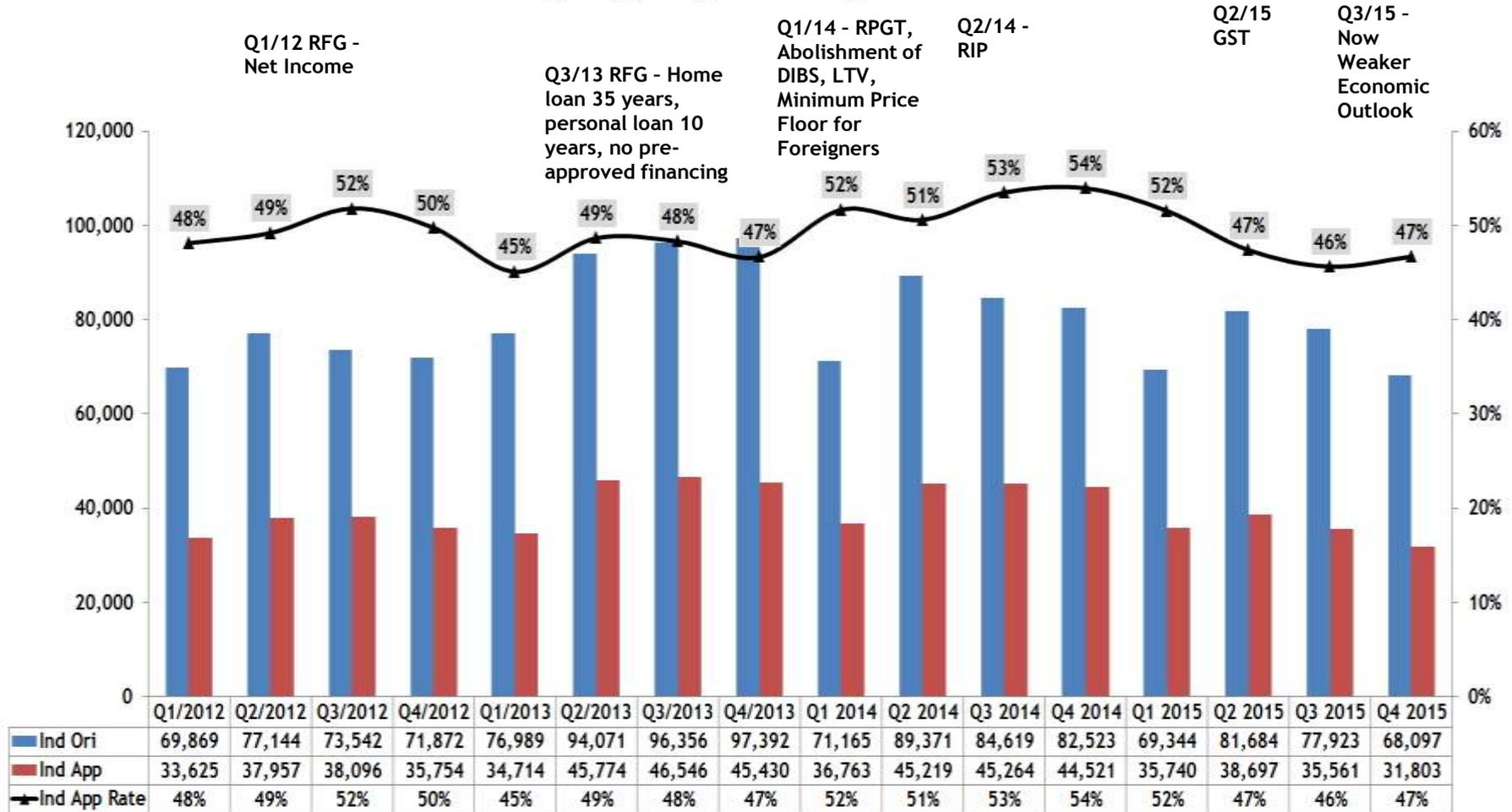
- i. If 10 years ago US households stood out as some of the most leveraged in the world, today, Asia is home to the highest household debt globally.
- ii. Malaysia's and Thailand's household debt to GDP ratios almost doubled between 2008 and 2014 to nearly 90 per cent.
- iii. Malaysia's favorable credit conditions and strong consumer demand accelerated the increase.
- iv. Worryingly, these levels resemble household debt in the US on the eve of the subprime crisis, when it peaked at 100 per cent of GDP in 2006 and 2007. The main difference is that Malaysia's nominal GDP in 2014 was around a 40th of the US's in 2006.

- v. Nevertheless, household debt to personal disposable income in Malaysia, Thailand, Singapore, South Korea and Taiwan is either higher than or as high as it was in the US in 2007, according to Deloitte.
- vi. Lending to households is slowing in Malaysia thanks to regulatory reforms targeting personal unsecured loans and low-income households. But the fact that household debt to income ratios remain high in spite of these reforms is telling. Malaysian regulators were reactive at best and too late at worst.
- vii. Fitch Ratings joins economists in saying that in Malaysia, where household debt has grown the quickest, commercial banks have healthy customer bases, strong capital ratios and asset quality buffers to sustain these liabilities.

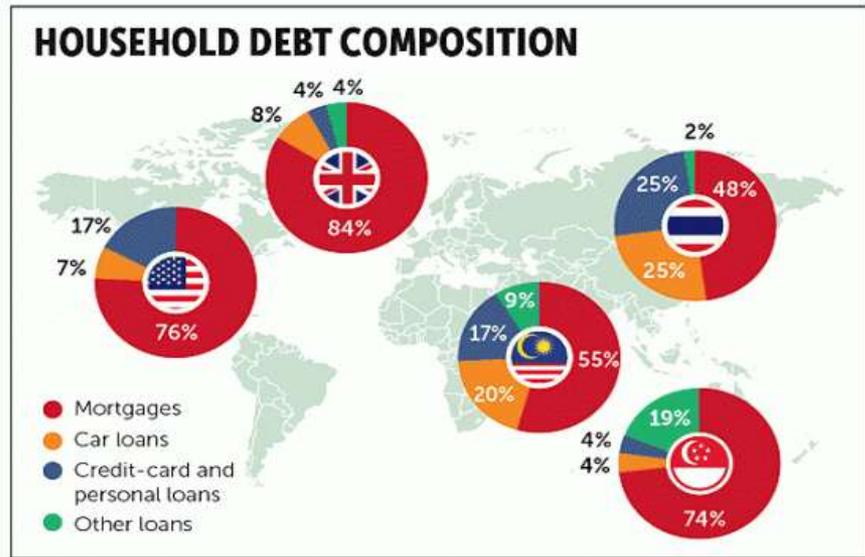


# BNM's Policies for Sustainability In Property Market

Industry Mortgage Origination and Approval in MYR'M

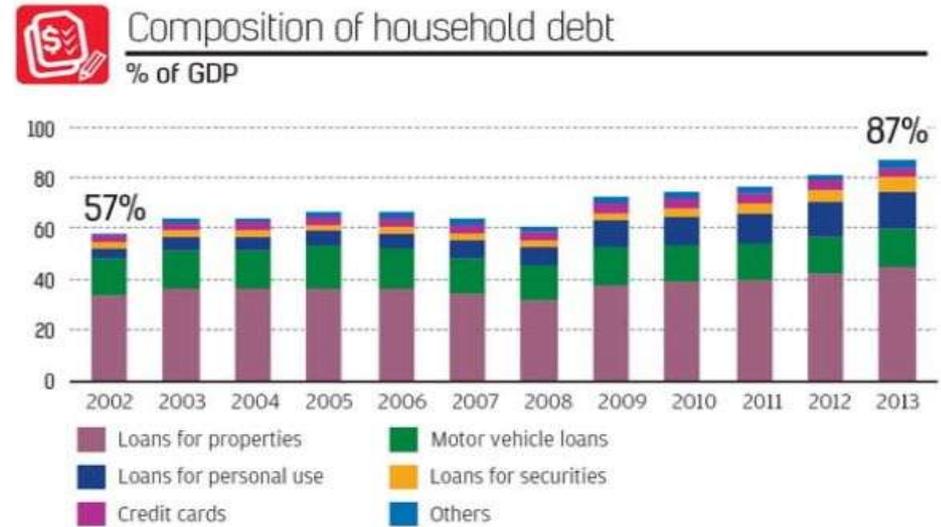


# Cooling Measures - BNM's intent is to control household debt



Source: TMB Analytics

POSTgraphics



Source: Bank Negara

1. In many developed countries, 75% of household debt is in the form of mortgages. In Thailand and Malaysia, half is consumption related such as credit card, personal loans and auto loans.
2. According to the central bank's annual report, household debt in the country had grown at a faster pace of 12.7% annually from 2003 to 2013 to 86.8% of GDP at the end of 2013.
3. Therefore, it said there was a need to continuously evaluate financial developments and undertake pre-emptive action to mitigate the build-up of imbalances.

<http://www.bangkokpost.com/learning/work/761552/household-debt-makes-economy-fragile>

<http://www.thestar.com.my/business/business-news/2014/03/20/rising-household-debt-it-hits-new-record-of-868-of-gdp-on-loans-for-properties-and-motor-vehicles/>

# Lending Guidelines Too Strict?

1. The range of approval rate from 2012 to 2015 is appended below:-

Category - affordable housing	Range (%)			
	Year 2012 (10 Council banks)	Year 2013 (11 Council banks)	Year 2014 (12 Council banks)	Year 2015 (12 Council banks)
Approval rate (%)	Ranges from 11.00 (lowest) to 79.00 (highest)	Ranges from 31.00 (lowest) to 82.00 (highest)	Ranges from 40.00 (lowest) to 85.80 (highest)	Ranges from 33.00 (lowest) to 89.40 (highest)

2. The top five reasons for rejections are as follows:-

- ❖ Lack of documentation
- ❖ Failed credit risk rating
- ❖ Poor CCRIS report
- ❖ Non Target Segment/Customer
- ❖ Failed borrower criteria

# Whilst we understand that BNM's intent is to control household debt, have the measures introduced been very effective in achieving its objective?

1. In our view, the cooling measures have brought positive effects on the nation's home ownership agenda by controlling the rapid increase in house prices over the last 5 years and made property more affordable for the consumers.
2. The Government had implemented various initiatives to assist households in the lower and middle-income groups to own their first home.
  - ✓ Setting up of Syarikat Perumahan Negara Bhd and Perumahan Rakyat 1Malaysia Bhd (PR1MA) - 175,000 units
  - ✓ Skim Rumah Pertamaku (SRP), Syarikat Jaminan Kredit Perumahan (SJKP)
  - ✓ Perumahan Rumah Mesra Rakyat - 10,000 houses at RM65,000. subsidy RM20,000 and 2% loan interest subsidy.
  - ✓ People's Housing Programme - 22,300 units of apartments and 9,800 units of terrace houses at max RM40,500 per unit.
  - ✓ First House Deposit Financing - RM200mil allocated funds to help affordable home buyers with their down payments on their first house purchase
3. To improve the ownership rate, the government has also pledged to supply one million affordable houses by 2018 and it has started to mobilise the public and private sectors to achieve the agenda.
4. We will continue to play a role in enhancing and supporting the stabilisation of the financial sector as well as promoting home ownership and home affordability.

## Home Ownership Rates for Selected Countries

Countries	% of home ownership	
	2010	Latest
Malaysia	72.5	N/A
Australia	68.1	67.0 (2011)
Singapore	87.2	90.3 (2014)
UK	70.0	64.8 (2014)
US	67.5	63.8 (2015)

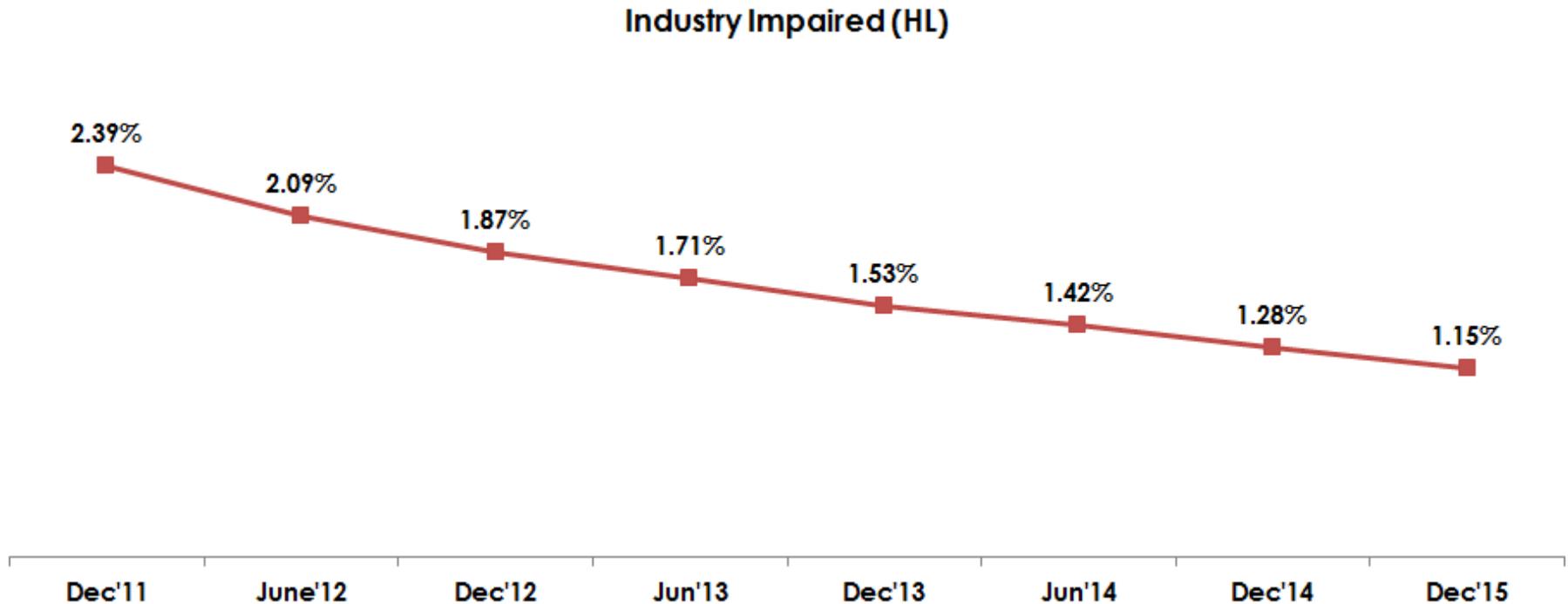
According to the latest available official figures, Malaysia has a home ownership rate of 72.5%. This is a relatively high number compared to home ownership rates in some of the developed countries except Singapore.

Source: tradingeconomics.com

[http://www.krinstitute.org/Making\\_Housing\\_Affordable-@-Chapter\\_1-;\\_The\\_Malaysian\\_Housing\\_Market.aspx](http://www.krinstitute.org/Making_Housing_Affordable-@-Chapter_1-;_The_Malaysian_Housing_Market.aspx)  
<http://www.tradingeconomics.com/singapore/home-ownership-rate>

# Whilst we understand that BNM's intent is to control household debt, have the measures introduced been very effective in achieving its objective?

1. Household loans from the banking system continued to improve in quality across all loan segments, with delinquencies remaining low and continuing to trend downwards.
2. The combined effects of incremental macro-prudential measures introduced by Bank Negara since 2010 to prevent excessive indebtedness have resulted in a more stabilized leverage position of households.



Source: BNM

<http://www.thestar.com.my/business/business-news/2014/03/20/rising-household-debt-it-hits-new-record-of-868-of-gdp-on-loans-for-properties-and-motor-vehicles/>

# Government Initiatives to improve home ownership

1. Cagamas Holdings Bhd, the national mortgage corporation, said affordability and accessibility remain the key issues that need to be addressed to promote homeownership in Malaysia.
2. Introduced the Rent-to-Own (RTO) scheme, e.g. PR1MA homes to specially cater to successful balloted applicants of PR1MA homes whose loan applications were rejected by banks.
3. Government is still exploring the concept of build-then-sell which affecting the small-scale housing companies or developers as they will have to bear all the cost.

Comparison of housing affordability based on annual household median income and median all-house price across states in Malaysia, 2014

Area	Monthly median income	Annual median income	Market Median-3 Price	Median All-House Price	Median Multiple Affordability	Affordability	Accounted living quarters by NAPIC, 2010
Terengganu	3,777	45,324	135,972	250,000	5.5		22%
K. Lumpur	7,520	91,440	274,320	490,000	5.4	5.1 & Over Severely unaffordable	88%
P. Pinang	4,702	56,424	169,272	295,000	5.2		74%
Sabah	3,745	44,940	134,820	230,000	5.1		24%
Pahang	3,389	40,668	122,004	200,000	4.9		58%
Kelantan	2,716	32,592	97,776	157,740	4.8		16%
<b>MALAYSIA</b>	<b>4,585</b>	<b>55,020</b>	<b>165,060</b>	<b>242,000</b>	<b>4.4</b>	<b>4.1 to 5.0</b> <b>Seriously unaffordable</b>	<b>60%</b>
Perak	3,451	41,412	124,236	180,000	4.3		57%
Perlis	3,500	42,000	126,000	181,000	4.3		34%
Johor	5,197	62,364	187,092	260,000	4.2		73%
Selangor	6,214	74,568	223,704	300,000	4.0		81%
N. Sembilan	4,128	49,536	148,608	188,888	3.8	3.1 to 4.0 Moderately unaffordable	74%
Sarawak	3,778	45,336	136,008	164,667	3.6		32%
Kedah	3,451	41,412	124,236	140,000	3.4		50%
Melaka	5,029	60,348	181,044	180,000	3.0	3.0 & Under Affordable	64%

# Government Aided Schemes to support home ownership

## a) Housing Guarantee Scheme by Syarikat Jaminan Kredit Perumahan Berhad (SJKP) by PROKHAS

- Primarily to finance non-fixed income earners with no documentary evidence of income to obtain housing loan from Banks including salary earners too.
- Income range min RM1,000.
- 100% government guarantee loan principal (shortfall between amount recovered and outstanding amount up to RM300k) and related recovery expenses up to RM5k or 10% of loan amount (whichever is lower)
- Property price up to RM300k (wef. 18 Mar 16)
- Margin of Advance (MOA): 100% (inclusive MRTA) up to max amount RM300k only.
- Term loan facility. Tenure 35 years/age 65 (whichever earlier)

## b) Skim Rumah Pertamaku by Cagamas SRP Bhd

- Assist young urban adults who have just joined workforce drawing up to RM5k/month to own their first home.
- Allows customer to obtain 100% financing from banks.
- Property price RM100k - Rm300k (single applicant) or RM500k (joint borrower).
- Applicable to fixed income earners only.
- Income range max RM5k (individual) RM10k (household but each individual max RM5k)
- First loss guaranteed by Cagamas SRP Bhd on 1<sup>st</sup> 10% of the 100% financing
- Term loan with no withdraw facility. Tenure 35 years/age 65.
- MOA 100% + 5%\* (\* for related expenses)

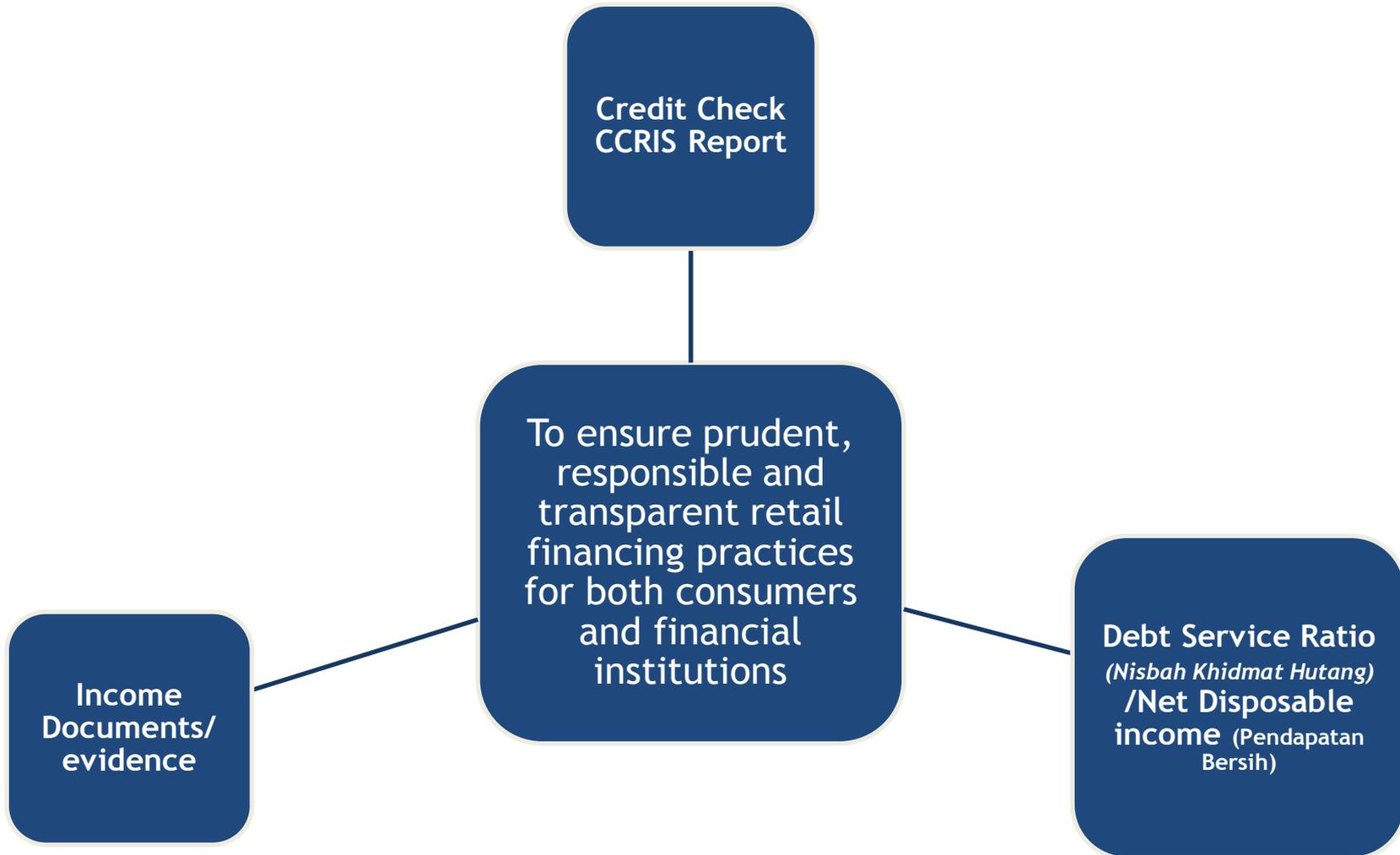
# PR1MA Affordable Home Ownership

PR1MA (1Malaysia People's Housing Scheme) by PRIMA Malaysia

- Promote greater home ownership among middle income earners by providing more affordable residential properties in major cities nationwide.
- Targeted at fixed and non-fixed income earners.
- Income range RM2,500 - RM10,000
- Property price RM150k to RM400k
- Buy-back of property in the event of default
- MOA : 100% + 5%\* (\* for related expenses)
- Term loan facility. Tenure 35 years/age 70
- Rent-to-own (those unable to get loan)

*Note : To be eligible for financing under the above government aided schemes, borrowers must have good/satisfactory CCRIS record.*

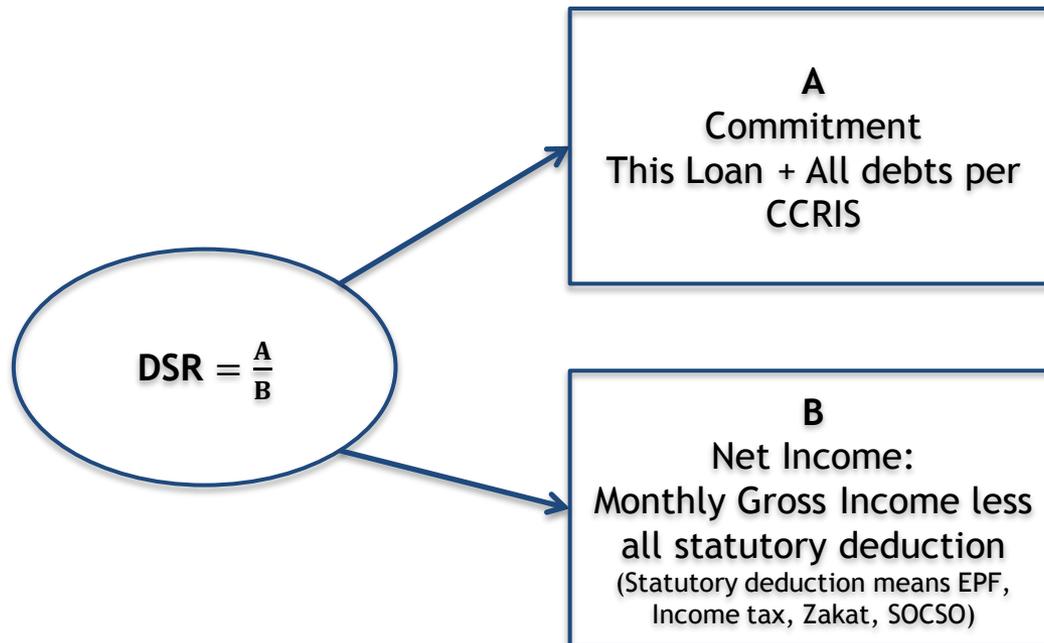
# Understanding Home Loan/Financing Assessment Criteria



# Debt Service Ratio

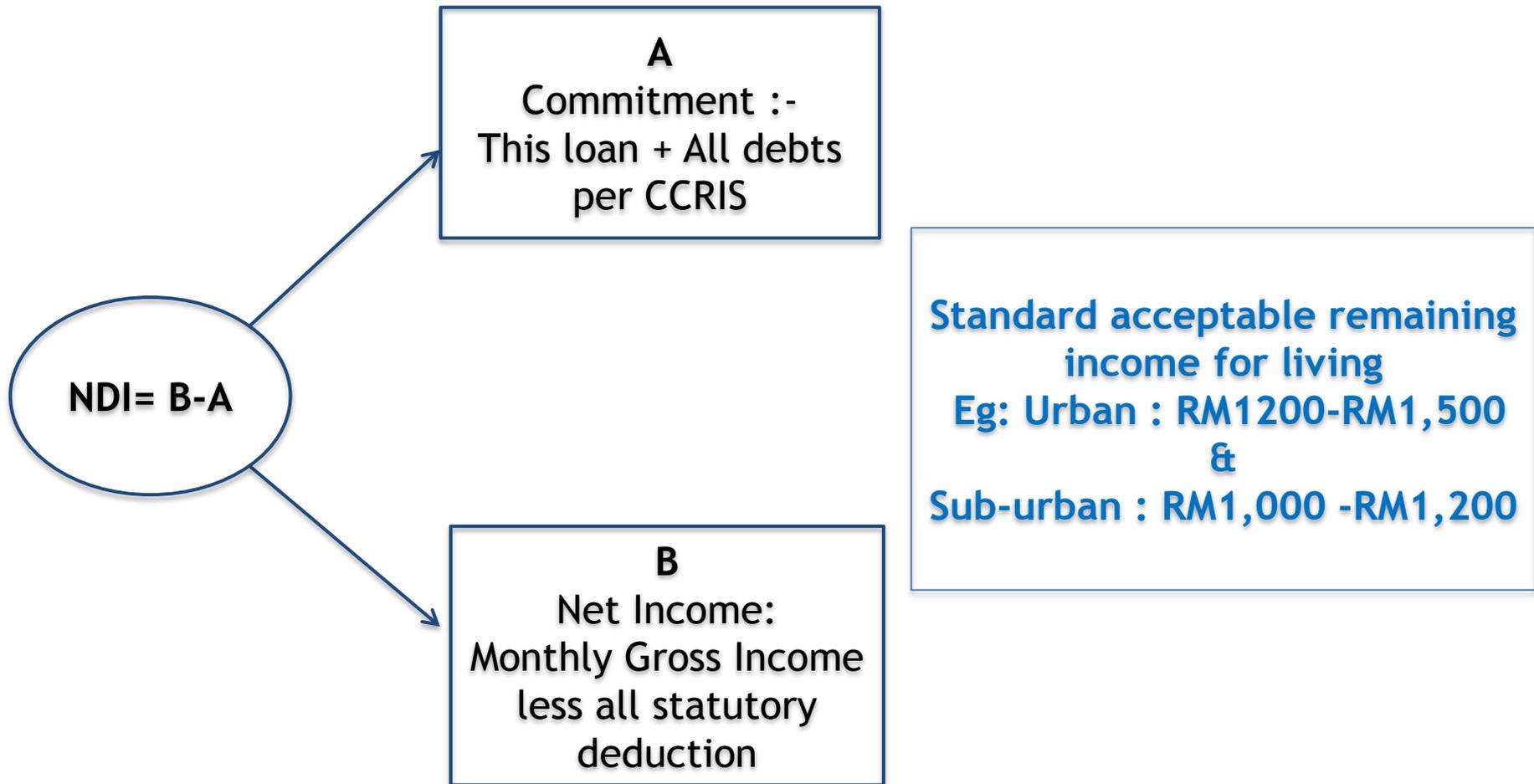
## OBJECTIVE :

- Prevent customer from becoming over-indebted
- To avoid excessive borrowing
- To allow sufficient buffers for the customer's daily and essential expenditures and contingent



**Overall averagely  
acceptable DSR is  
60%**

# Net Disposable Income



# Income Documents/Evidence

## Definition of Gainfully Employed

- Applicant who earns monthly salary/ wage

## Definition of Self-Employed

- Applicant who operates/owns business - sole proprietorship or partnership/professional firm
- Applicant who is a shareholder of a business incorporated as a private limited (Sdn Bhd) company

NOTE: documentary/search evidence that the business exists via Suruhanjaya Syarikat Malaysia (SSM)

### Gainfully Employed

(Salary earner with EPF contribution)

e.g.

- ✓ Director without shareholding
- ✓ Executive
- ✓ Clerk
- ✓ Office worker

### Self-Employed

e.g.

- ✓ Director with shareholding
- ✓ Sole Proprietor
- ✓ Business partner
- ✓ Multi level marketing
- ✓ Insurance agents
- ✓ Real estate agents

# Income Evidences and Proxies for Gainfully Employed

Income Evidences	Acceptable Income Proxies
Latest 3 months salary slip	Rental - Existing (Tenancy Agreement)
Annual Income(B/BE/EA Forms)	Allowances - Variable (50% - 100%)
EPF statement	Fixed Deposit Interest / ASB Dividend (100%)
Bonus - contractual & non contractual	Commission (50%-100%)
Allowances - Fixed	Pension (100%)
	Overtime (50%-100%)
	Service Points (50%-100%)

# Income Evidences and Proxies for Self-Employed

Mandatory Documents	AND any one of the following docs	Description
Statement of Financial Accounts		<ul style="list-style-type: none"> <li>➤ Certified Financial Statements or</li> <li>➤ Record obtained from SSM</li> <li>➤ Commission Statement for commission based</li> </ul>
Bank Statement		<ul style="list-style-type: none"> <li>➤ Latest past 6 months</li> <li>➤ personal current / savings account or firm / company current account</li> <li>➤ Bank statements of the business to be used to “validate” the reported turnover / sales of the business or commission earned</li> </ul>
	EPF statements	<ul style="list-style-type: none"> <li>➤ Same as salary earner</li> </ul>
	Form B/ BE or E-Filling	<p>Supported with:</p> <ul style="list-style-type: none"> <li>➤ Acknowledgement / official receipt from IRB (Cash) or</li> <li>➤ Machine validated payment receipt with relevant bank (Cash) or</li> <li>➤ Bank statement to verify tax payment made if it is via cheque</li> </ul>

# Measure/s which we have and can be taken to improve approval rate

Key take away factors which would boost housing loan applicants success rate :

- ✓ having a good credit record by keeping all payments up to date on existing credit facilities/ liabilities.
- ✓ the ability to prove financial capability to make monthly payments.
- ✓ fully and accurately disclosing all material information with regard to their financial position when applying for a home loan.
- ✓ knowing just how much one can borrow to purchase a property by checking with the bank. The borrower may also want to consider getting pre-approved for a mortgage loan before looking at purchasing a property.
- ✓ First time house buyers may also want to consider applying for Government schemes such as “Skim Rumah Pertamaku” and “Skim MyDeposit (RM30k funded by Govt to assist on 10% deposit payment)” for assistance in their property purchase.