'No compelling need to relax prudent lending policy on mortgages'

BY WONG EE LIN

KUALA LUMPUR: There is no compelling need for Bank Negara Malaysia (BNM) to relax the current prudent lending policy among commercial banks considering the stubbornly high household debt to promote homeownership, say economists.

"The government through PR1MA (1Malaysia People's Housing Programme) housing has implemented step-up end-financing to enhance first[-time] homebuyers' affordability," said Socio-Economic Research Centre executive director Lee Heng Guie, noting that the central bank should retain the lending guidelines, which are an effective measure to curb spiralling property prices.

Furthermore, Lee commented that the current economic scenario does not warrant an interest rate cut. He explained that cutting the housing loan interest rate will help ease the burden on borrowers. However, it may entice people to borrow more and beyond their financial capacity, which in turn will increase the household debt further, an unwanted consequence.

"Unless it's because of the global economy slowing down and causing a sharp slowdown in domestic demand, measures such as cutting [the] interest rate could be applied to ease the economic downturn," said Lee. He stressed that cutting the interest rate should not be done just to promote homeownership.

He added that government could help ease the financial burden of borrowers by providing tax rebates on the amount of borrowing for the first two years of house purchase.

On the other hand, Lee said, the supply of affordable homes is not growing as fast as demand. He is of the view that there is a lack of supply at the "right locations". "The government can help by increasing supply at the right locations, meeting the needs of homebuyers who can afford [the houses]," said Lee.

Furthermore, Lee said the people are now seen to be gradually breaking away from the Asian culture to buy homes as a necessity as houses are really expensive these days. "Buying a house comes with a long-term commitment. Hence, while [the] cost of living is still high, homebuyers' lifestyles have to change," said Lee.

According to BNM's Annual Report 2016, he noted, the ratio of the median house price to the median household income has consistently exceeded 3.0 since 2004. By 2014, the housing affordability ratio was 4.4, indicating that houses in Malaysia were "seriously unaffordable".

While Malaysia's household debt-to-gross domestic product (GDP) ratio contracted to 88.4% as at end-2016 and further to 85.6% of GDP at end-June 2017, from 89.1% in 2015, Lee highlighted that the household debt still warrants close monitoring.

Meanwhile, Affin Hwang Investment Bank Bhd chief economist Alan Tan expects that the government would "probably come out with some sort of easing measures" for first-time homebuyers to increase the number of people owning homes.

However, Tan does not think that the government would further ease lending measures for third-house financing because BNM's measures for housing loans are effective in stabilising property prices.

"We believe that the measures are status quo. BNM has set the loan-to-value (LTV) ratio of 70% to provide a stable and sustainable property market. In view of this, we believe that the LTV ratio will still remain at 70% for third-house financing," said Tan.

In view of the high household debt, Tan said the LTV ratio will help clamping down on speculative buyers, preventing them from pushing property prices higher.

Household debt-to-GDP ratio