Plan to ease loan process may backfire

Ideas: Encouraging households to borrow could prolong property bubble

EUGENE MAHALINGAM
eugenicz@thestar.com.my

PETALING JAYA: The government's proposal to relax the housing loan guidelines for first-time house buyers, if not thoroughly thought out, could only worsen the current property market glut.

The Institute for Democracy and Economic Affairs (Ideas) said easing up the loan process, especially to assist the low- and middle-income earners, "may not be a move in the right direction".

"Tackling this problem from the demand side by promoting credit policy is not viable and may worsen the problem. Every sector in the economy will experience business cycles and the property market in Malaysia right now is at the stage of contraction," said Ideas senior fellow Dr Carmelo Ferlito in a statement.

"While the market is contracting, encouraging households to borrow more will not solve the problem in the property market; rather it will prolong the property bubble."

PPC International managing director Datuk Siders Sittampalam said a rationale for easing the lending process is due to the high level of overhang in the country.

"My question is will this problem of unsold properties be resolved? Will the move to relax the guidelines apply across the board? Easing the loan application process must be done carefully, or we will just go back to how the market was about four or five years ago," he told *StarBiz*.

While the cooling measures implemented by Bank Negara were aimed at curbing speculation, it also made the loan-application process more stringent, said Siders.

"When accessibility to financing was made more stringent, there were repercussions on the market. However, it eased property inflation; speculators and flippers were taken out of the market and this helped stabilise the property sector."

A speculator, or "flipper", is a person who purchases a property at a discount and disposes it at a higher price – usually during a property market upturn.

Flipping was one of the more popular ways of making money especially during the period of 2008 and 2014, when the local property market was experiencing an up-cycle and bank interest rates were low.

Ferlito, meanwhile, said the property sector in Malaysia is bloating – evidenced by the fact that there is a mismatch between demand and supply in the market.

"Implementing a favourable credit policy risks delaying a property crisis and making it worse when it does arrive. Lack of affordable housing is a serious problem, and the government should consider how to ensure the private sector is best placed to start building cheaper homes."

As far as relaxation on property financing, TA Securities in a recent report believes that policymakers are in no hurry to loosen existing cooling measures, given the current accommodative interest rate levels and the fact that household debt remains elevated.

"We are of the view that these guidelines serve to curb excessive speculative activities while continuing to allow access to financing for eligible borrowers, particularly first-time house buyers.

"For instance, the loan-to-value ratio limit was only targeted at borrowers with three or more housing loans and was not imposed on a broad-based approach."

Last week, Housing and Local Government Minister Zuraida Kamaruddin said the government and Bank Negara were in talks to relax the housing loan guidelines for first-time house buyers, primarily those within the low-income (B40) as well as middle-income (M40) groups.

Zuraida said the current rejection rate of home loan applications was impacting sales in both the primary

> TURN TO PAGE 2

Simply relaxing guidelines may create speculative market again

> FROM PAGE 1

and secondary markets, and that the government was looking to find a solution to the issue.

The B40 and M40 categories refer to those earning a salary of RM3,855 and below, and RM3,860 to RM8,319 per month, respectively.

Siders noted that the number of non-performing loans was highest amongst the B40 category.

"A thorough study needs to be done before a decision can be made. If not, simply relaxing the guidelines could end up creating a speculative market once more."

Last week, *StarBiz* reported that the number of unsold completed residential units – including serviced apartments and small office, home offices (SoHos) – totalled 34,532 worth RM22.26bil for the first quarter of this year.

Citing the National Property Information Centre's Property Overhang First-Quarter 2018 Report, this represented an increase of 55.72% in the number of unsold units compared to a year ago, when unsold units totalled 22,175, inclusive of serviced apartments and SoHos.

Siders believes that the overhang in Malaysia was due to two factors – unaffordable property prices and locations that were less-than-ideal.

"You can't say there is no demand, because there is latent demand. But one reason for the overhang is because prices of these units are just too high."

Knight Frank Malaysia managing director Sarkunan Subramaniam told *StarBiz* that now would be a good time for the central bank to make adjustments to the lending policies.

"The non-performing loan rates ... they haven't increased by much. People are still holding on to their assets and that is a good sign," he said when contacted last week.

In March this year, in a series of studies and tests to assess the financial health of borrowers, Bank Negara outlined three scenarios that would impact a borrower's debt-repayment capacity.

Calling these "stressed" scenarios that would put "debt at risk", the central bank said they included a drop in income, a rise in the cost of living and borrowing costs.

"The results of the overall stress tests reveal that borrowers are most affected by a decline in total income," it said.