

ABM: Buyers better protected under BTS scheme

Risk of an abandoned project or defective housing would be minimised



Developers should have a healthy mix of internal and external financing to ensure they stay committed to completing their projects.



The Association of Banks in Malaysia (ABM) and its member banks have reiterated that they will finance a housing project regardless of whether it is being developed under a Build-Then-Sell (BTS) system of delivery or a Sell-Then-Build (STB) mode.

"This is as long as these two tests are satisfied – the project's viability in terms of location, type of development and marketability, which is well supported by cashflow projections; and the developer's financial strength is backed by a strong track record," ABM executive director Chua Mei Lin said in a statement emailed to *NST Property*.

"Our member banks continue to engage with developers to ensure that there is access to financing for deserving ventures," she added.

Stating that financing is not the issue, she said there was significant growth of outstanding bridging financing provided by the banking industry for the period between 2005 and 2008, which recorded an annual growth of 32.4 per cent, from RM2.9 billion in 2005 to RM6.8 billion in 2008.

Chua said ABM acknowledges that house-buyers' interest would be much better protected

under a BTS scheme and the risk of an abandoned project or defective housing would be minimised.

She explained that this is because a purchaser only pays 10 per cent upon signing of the Sale and Purchase Agreement and the balance 90 per cent upon the occurrence of vacant possession with keys and the certificate of completion and compliance, or electricity/water ready for tapping, or availability of individual title for the property concerned.

"In addition, in our opinion, there should be a healthy mix of internal financing from the developer as well as external financing from the financial institutions in any housing project to ensure the developers are themselves committed to completing the projects.

"This mix will enable the developers and the banks to share risks or losses in the event of a low take-up rate," she said.

She advised developers with viable projects but are facing difficulties in obtaining financing from banks or aggrieved developers who feel their bridging loan applications have been unreasonably rejected to approach ABM for assistance.

On small developers who may lack the neces-

Chua says ABM also encourages developers to consider raising funds via the capital market.

sary funding to fund a big project, she said they may consider these alternatives:-

- Undertake projects on a smaller scale – one that commensurates with their cashflow position (internal funds)
- Build big projects in stages (phase-by-phase) – in this way, developers can use cash from the sales of the early-phase to finance the next phase of the project
- Embark on consolidation exercise among developers via joint ventures, strategic alliances or mergers that would generate economies of scale to enable the strengthened entity to undertake projects with minimal financial constraints
- Tap into the capital market in view of the fact the government has set up Danajamin to provide credit enhancements for issuances of bonds of five years and above