

## RED COLUMNIST

**BE CLEAR:** Go for loans that suit your needs and enable you to save the most interest

**B**uying a home and obtaining the right type of home loan from the bank is a challenging task. Owning a home is usually our single largest commitment. If financing is not done properly, it can cost you thousands or even tens of thousands in interest payment alone to the bank.

For investors, structuring the mortgage financing correctly is even more critical as it can mean the difference between a profit or a loss. This can be the difference between creating a wealth generating property portfolio or never progressing beyond the first property investment.

I have seen many property buyers made wrong mortgage decisions which cost them huge sums of money. How do you make sure that you will end up with the right type of property finance that will save you thousands in interest?

Here are borrowers' 10 biggest home loan mistakes which I have seen in my mortgage financing career.

**1. Not understanding local mortgage industry:** For the past one year, Bank Negara Malaysia (BNM) had announced many changes in the mortgage financing regime and many homebuyers were caught off guard. For instance, when I sold one of my properties recently, the buyer only knew that there is a 70 per cent financing cap on the third property after he paid the deposit and went to the bank to enquire about financing.

Another example is the new announcement on 100 per cent financing for properties costing



between RM100,000 and RM400,000. Be careful of loan approval by banks. It's rigid with many requirements to meet. My advice to those going for this type of loan is go to the bank and check the loan approval requirements before committing to the purchase.

For homebuyers or investors buying new properties, check the latest changes before committing to the purchase.

**2. Going for lowest interest rates:** The lowest interest rate does not necessarily save you the most interest. Why?

What may be seen as a good deal can sometimes come with strings attached, so it costs more in certain situations or the loan offers less flexibility. Always read the fine print in your loan Letter of Offer before signing on the dotted line.

Be clear about your objectives for getting the loan and do your homework before you go to the bank for your financing needs. With the objectives set, go for a home loan that suits your specific needs and objectives and enables you to save the most interest.

**3. Not understanding loan packages:** There are hundreds of different innovative loan packages in the market. Many borrowers do not do research on the loan packages and take packages that are not suitable for their specific needs and goals, costing them to lose large amount of money in interest payments to the banks.

**4. Pre-qualifying loan approval:** This is the most common mistake homebuyers make. Many thought that they would have no problem in getting their loans approved and ignorance can lead to losing tens of thousands of ringgit paid as deposits.

The right approach is to go to the bank before buying a property and check your credit standing. The loan officer can help to pre-qualify your loan. At least, when you pay the house deposit, you pay with confidence.

**5. Not knowing how banks determine credit approval:** Sometimes, it will work to your advantage if you know how banks approve a loan. They use debt-to-income ratio (DTI) to determine whether you qualify for the loan. For example, if your income is RM3,000 and your total debt is RM1,500, your DTI works like this:

$$\text{RM1,500/RM3,000} \times 100\% = 50\% \text{ DTI}$$

Different banks use different ratio to determine their credit approval. Normally, banks approve loans with the DTI ratio of between 33 per cent and 70 per cent. BNM's recent announcement on using "nett" instead of "gross" income to determine loan approval will greatly affect the DTI ratio.

Be mindful that debt also includes your other borrowings such as car loans, credit cards and personal loans.

**6. Be a guarantor for someone else's loan:** According to Banking Info (by BNM), a guarantor will sign a legal contract which binds the guarantor to pay the debt of the borrower if the borrower is unable to service the loan.

I have often come across cases where the guarantor gets into trouble when the main borrower is unable to service the loan. I have even seen cases where the borrower cannot be found. In this situation, the bank will go after the guarantor.

The guarantor will have two choices of either to service the loan or face being sued for bankruptcy. When this happens, even people with good financial standing will find it difficult to obtain a loan. Be careful when you are asked to be a guarantor.

**7. Not shopping around:** I had a customer who bought a three-storey semi-dee in Penang. At the time of purchase, she went to the bank to get her home loan. The loan was approved by the bank with the condition that RM200,000 be placed as fixed deposit lien.

She did not go to other banks to enquire and took up the offer. In 2009 during the economic downturn, her business took a dip and she needed the money to sustain her business but her bank was unable to release the lien.

She decided to sell her house at a loss and she also had to pay a penalty of five per cent on her RM500,000 loan.

This situation can be avoided if she had shopped around for banks. Maybe she did not even have to put up the lien.

Different banks have different approval criteria. One bank's rejection can be another bank's approval.

**8. Failure to plan:** Having a home loan is our single largest commitment. Many borrowers take on loans

they cannot even afford after taking into account their income and expenses. It will be wise to do your own financial planning before committing yourself to any loans.

Failing to plan will also cause the borrowers to lose tens and thousands in interest. Remember: Even small monthly savings can add up to a big sum.

Making constant extra repayment to the home loan will enable the borrower to save a lot in interest and settle the loan much earlier than the original tenure.

**9. Not choosing the right mortgage lender:** I am very particular when it comes to choosing a mortgage officer who will process my loan. One of my criteria is that the mortgage officer must have at least one year's experience. This is important as their experience in recommending your loan will be paramount to determining your loan approval.

**10. Not buying MRTA:** A lot of borrowers try to avoid buying insurance. If you do not have a life insurance, at least buy mortgage reducing term assurance (MRTA) to cover you in the event of death or permanent disablement.

Even if you have life insurance, you can still buy MRTA for extra protection for you and your family. MRTA is much cheaper than the life policy but the coverage is limited.



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