High debt ratio among reasons loans rejected

KUALA LUMPUR: High debt service ratio (DSR), adverse credit history, insufficient income, repayment capacity and weak documentation or banking records are the main factors why applications are unable to obtain housing loans.

The Association of Banks Malaysia (ABM) said the rejection of housing loan applications cut across all income ranges but trended higher among the lower to middle-income group.

This is due to smaller disposable income relative to the new and existing monthly commitments.

"Generally, the types of properties which this category of applicants looks for are terrace houses and apartments.

"Apartments are especially popular in the key urban areas in view of the relatively lower pricing. It is therefore crucial for all borrowers to review their own affordability in line with their financial circumstances," it said.

ABM said its member banks had not deviated from their usual approach to the screening of loan applications.

The main reasons for the applications being rejected include:

> High debt service ratio (DSR) – this means that the applicant's existing level of borrowings and repayment is very high compared to his income. Banks use the DSR to see just how much of the applicant's income is being utilised to pay off debts and if he can reasonably add on a new loan with respect to his earnings;

> Adverse credit history – this may refer to the applicant's poor repayment track record for existing credit facilities, be it for credit cards, hire purchase or other borrowings;

> Insufficient income – some applicants may not have existing borrowings but their income is insufficient to support the amount of loans applied. Furthermore, some applicants may not have a steady income stream or their income cannot be verified;

> Repayment capacity has yet to be established – this may mean that the applicant's ability to generate enough funds to make debt repayments on intermediate and long-term loans has yet to be proven due to reasons such as the applicant having just entered the workforce or set-up a new business; and

> Weak documentation or banking records – the applicant failed to produce sufficient evidence to support the amount or consistency of income, or bank statements to support the application.

ABM said while banks looked to grow their businesses through the growth of their loan portfolios, they are also cognisant that loans extended must be viable to protect the interest of their depositors.

"They are also guided by regulatory guidelines as well as internal credit policies to ensure that borrowers are not unduly burdened by their financial obligations," it said.

All affected: People visiting a property fair in Penang. The Association of Banks Malaysia says the rejection of housing loan applications cut across all income ranges but trended higher among the lower to middle-income group.