

Loans are being given to eligible borrowers

WITH reference to recent media reports on calls to relax the criteria for potential buyers of affordable housing, the Association of Banks Malaysia (ABM) would like to reiterate that its member banks, which comprise the commercial banks operating in Malaysia, have been and will continue to provide home loans to eligible borrowers. Commercial banks are in the business of lending and financing will be extended to viable applicants.

From January to May 2017, commercial banks approved over RM25.7bil and disbursed in excess of RM24.6bil in loans for the purchase of residential property. Housing loans form the single largest component of commercial banks' total loan portfolio, representing 34.4% of the total outstanding loans as at end May 2017.

For home buyers, especially in the case of owner-occupied mortgage applicants, banks typically have products to offer which match the buyer's affordability and income level. Home financing products offered by the banks include features such as flexibility in managing the amount and frequency of loan repayments, combination of term loan and overdraft financing, and optional redraw facility, to name a few.

In addition, there are also specific loan products introduced by the banks for the various Government

schemes such as the Housing Guarantee Scheme by Syarikat Jaminan Kredit Perumahan Berhad (SJKP), schemes for selected affordable housing projects (e.g. SelangorKu and RumahWIP), "Skim Rumah Pertamaku" (SRP) and PR1MA Special End Financing Scheme.

"Rent-to-own" schemes (part of the PR1MA housing initiative) are also available.

The suite of housing loan products from commercial banks offer an array of financing options which are tailored for borrowers with different levels of income to purchase all types of residential properties, including affordable housing. Consumers are thus strongly encouraged to discuss and work with their financiers for a financing package that best suits their needs.

Our member banks have not deviated from their usual approach to the screening of loan applications. The main reasons for the applications being rejected would include:

1. High debt service ratio, also known as 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;

2. 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;

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

4. 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

5. 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.

It is observed that the rejection of housing loan applications cuts across all income ranges but trends higher among the lower to middle income group 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. The latter 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.

While banks look to grow their businesses through the growth of their loan portfolios, they are also cognizant that the 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.

Members of the public are welcome to contact us at our ABMConnect hotline 1-300-88-9980, or email at eABMConnect by logging on to our website, www.abm.org.my.

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