

Headline	THE FAULT IN OUR HOME LOANS		
MediaTitle	Smart Investor		
Date	12 Jun 2019	Color	Full Color
Section	NEWS	Circulation	21,200
Page No	62,63	Readership	63,600
Language	English	ArticleSize	1145 cm ²
Journalist	N/A	AdValue	RM 11,665
Frequency	Monthly	PR Value	RM 34,996



PROPERTY |



THE FAULT IN OUR HOME LOANS

A lack of knowledge about the home loan process among first-time and younger purchasers is cited as a key factor driving home loan rejections in Malaysia.

Housing availability and ownership concerns have taken centre stage in the national spotlight in recent years, hitting younger homebuyers hard.

Millennials and subsequent groups such as Gen Z are eager to move out of the nest and into their own homes, but cannot afford to, leading some to dub them "Generation Rent".

By Sheldon Fernandez

Government housing initiatives such as the national Home Ownership Campaign and programmes under the National Affordable Housing Council are bridging the gap in terms of home

availability and pricing. However, setting aside the question of income stagnation – as well as the tendency for younger generations to overspend on smartphones and Starbucks lattes! – these initiatives don't address the financing issues preventing Generation Rent from purchasing properties.

Painting by the numbers

The easiest way to understand the home loan financing situation in Malaysia is to refer to national statistics tracking the issue.

The numbers reported by Bank Negara Malaysia (BNM) paint a rosy picture, with 70% of loans

approved by volume in 2018. This is supported by the recent PropertyGuru Consumer Sentiment Survey whereby 30% of respondents found it increasingly difficult to get home loans.

However, digging deeper into BNM's own data turns up a very different take-away, which is that nearly 60% of loans are rejected by value. In plain language, this means that seven out of 10 Malaysians are getting their loans approved. However, the remaining three out of 10 are applying for loans much higher than they can afford.

Why is this important? The answer is that the large amount

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of rejected loans by value points towards significant demand for housing that remains unfulfilled.

To put this in perspective, Malaysians applied for RM239.5 bil in residential loans in 2018. Of these loans, 70% were approved, with a total value of RM102.8 bil in residential loans – meaning that the remaining 30% of applicants had tried to borrow RM136.7 bil.

Some of these may have been existing owners who no longer qualify for high margins of financing for their next property purchase. Given the value of rejected loans in 2018, this fits the profile of property investors targeting upscale projects.

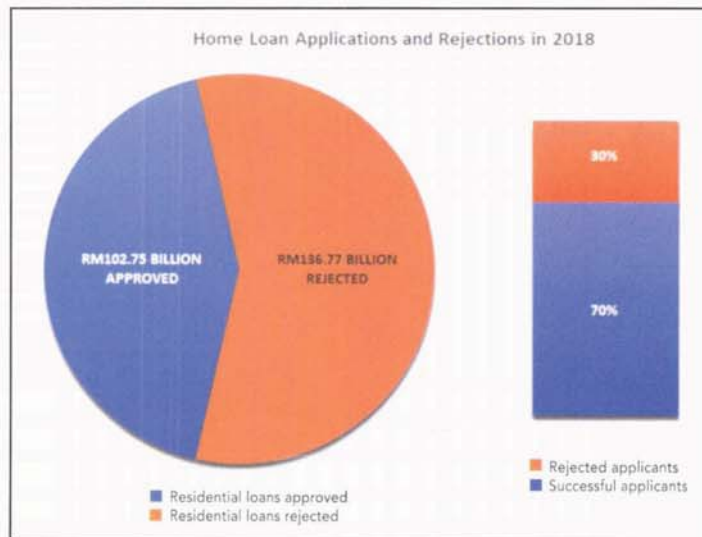
However, lack of knowledge about the home loan process is a concern among first-time and younger purchasers as well. Banks often cite it as a key factor driving home loan rejections in Malaysia.

As such, increasing public awareness about how home loans work is a crucial step in fixing the fault in our home loans in Malaysia – namely the huge amount of loans rejected by value.

Finding a way forward

Fortunately, developments in financial and property technology – FinTech and PropTech respectively – have allowed domestic players to introduce solutions tackling this fundamental issue behind high loan rejection rates at its roots.

The problem is that many Malaysians simply do not know how much home loan financing they are eligible for. They then apply for loans they cannot afford and are rejected, giving them a black mark for future applications.



This black mark is tracked by BNM's Central Credit Reference Information System, which banks can check for months after a rejected application. During this time, other loan applications by the homebuyer are less likely to succeed.


Recent solutions, such as PropertyGuru Home Loan Pre-Approval, take the guesswork out of the home loan process by telling homebuyers exactly how much they can afford before they actually apply for a loan.

In the case of Home Loan Pre-Approval, the solution follows on the launch of PropertyGuru Mortgage Pre-Qualifier (MPQ) in 2018. Designed to estimate mortgage amounts ahead of time for homebuyers, MPQ has been refined and complemented with an ecosystem of supportive features, such as property matching and partnerships with banks for priority services.

Other home loan eligibility calculating tools available in the

market differ in the way they calculate home loan eligibility, as well as how available they are to everyday homebuyers and the supporting services they offer. However, all of them tackle the fundamental lack of knowledge affecting the home loan process in Malaysia.

In this way, they help homebuyers avoid the chances of unsuccessful loan applications, as well as the chances of black marks affecting future loans.

With widespread uptake of these solutions, it may be possible to reduce high national rates of loan rejection by value. This would in turn further the national housing agenda and help ensure a home for every Malaysian, regardless of age and background. 



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