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Objections to FundMyHome remind Tong of 1994 when he launched online share trading

BY **CINDY YEAP**

It has been a hectic 11 days for Datuk Tong Kooi Ong since FundMyHome was launched on Nov 4 by Prime Minister Tun Dr Mahathir Mohamad.

The naysayers have been out in force to rubbish his creation of a digital platform that brings together developers and investors to help young Malaysians buy their first home without a need for a mortgage in the first five years.

Analysts from think tanks like Khazanah Research Institute and Institute for Democracy and Economic Affairs insist that those who cannot afford a mortgage should just rent and not be tempted to buy a house.

The Real Estate and Housing Developers' Association also expressed its scepticism, which was a surprise, given that some critics have alleged that FundMyHome was set up to help developers at the expense of homebuyers.

Meeting the media on Nov 15, Tong was asked whether he was dismayed by all the criticism. His reply was that of someone who has had to deal with objections facing all innovative ideas at the start.

In 1994, when he was running Phileo Allied Bank, he introduced online share trading and banking — a first in Malaysia. The bank also paid interest to customers with current accounts, which created an uproar from other banks but was welcomed by depositors.

"There were a lot of objections, and a lot of people thought it could not be done, but today, everyone is doing it," said Tong, who, apart from being a banker, was also a developer when he ran Sunrise Bhd from 2004 to 2013.

> **All we ask is [that people] be open-minded and hear us out because if it works, imagine the lives we can help."** — Tong

"All innovation goes through stages of perception, from ridicule to debate, before [reaching] it was obvious," he said, adding that FundMyHome would have to go through the same cycle.

Debate and negative media coverage have been fast and furious from those who feel strongly that people should not be given loans if they cannot afford them.

Yet, among Malaysians, there are those who are renting homes because they have not saved enough to make a down payment, but would be able to take a loan later because their income is likely to grow in, say, five years.

This is where FundMyHome comes in because apart from having to pay 20% of the house price, there is no need to take out a mortgage for the remaining 80% for the first five years as this will be funded by investors.

LOW YEN YEING/THE EDGE PROPERTY

Tong with Au Foong Yee, managing director and editor-in-chief of EdgeProp.my, the initiator of FundMyHome

Solving the lack of current savings

Under FundMyHome, money that would have gone to rent goes to paying for a 20% equity or ownership of the RM300,000 house instead.

That means that if the house were to be sold at the same price of RM300,000 after five years, 20% of proceeds, or RM60,000, would belong to the buyer. That RM60,000 in the pocket means the buyer only needs to borrow or come up with RM240,000 to buy the remaining 80% of the RM300,000 house from investors. That RM60,000 can also be used as down payment for another property if one decides not to buy the remaining 80% after five years. This is on top of having full use of the house for the five years — leaving you free to even put up a room for rent.

For sure, if the house price rises 20% to RM360,000 after five years, the buyer would

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Property price (RM)	Market value of property in Year 5 (RM)	Change in value (RM)	How proceeds are distributed if property sold after 5 years: Buyer (RM)	Investor (RM)	Property developer (RM)	Amount to refinance if buyer buys remaining 80% of house after 5 years (RM)	Amount to top up if rolls over as 20% equity owner for another 5 years under FundMyHome (RM)	BUYERS – What buyers get from paying 20% of property (RM60,000) after 5 years: Buyer's share of change in value after 5 years excluding any rent income or savings (RM)	Potential savings from not having to pay rent, assuming RM1,000 a month for 5 years (RM)	Potential income from renting out a room at RM300 a month for 5 years (RM)	Total potential equity gains and savings	INVESTORS – What investors get from paying 80% of property (RM240,000) after 5 years: Investor's share of change in value of property after 5 years, excluding 5% yield (RM)	Investor's 5% yield per annum for 5 years on the 80% equity	Investor's total gain from paying 80% of the property (RM240,000) after 5 years, including 5% yield per annum (RM60,000) (RM)
300,000	450,000	150,000 +50%	78,000	312,000	60,000	372,000	30,000	+18,000	+60,000	+18,000	+96,000	+72,000	+60,000	+132,000
300,000	420,000	120,000 +40%	72,000	288,000	60,000	348,000	24,000	+12,000	+60,000	+18,000	+90,000	+48,000	+60,000	+108,000
300,000	390,000	90,000 +30%	66,000	264,000	60,000	324,000	18,000	+6,000	+60,000	+18,000	+84,000	+24,000	+60,000	+84,000
300,000	360,000	60,000 +20%	60,000	240,000	60,000	300,000	12,000	0	+60,000	+18,000	+78,000	0	+60,000	+60,000
300,000	330,000	30,000 +10%	60,000	240,000	30,000	270,000	6,000	0	+60,000	+18,000	+78,000	0	+60,000	+60,000
300,000	300,000	0	60,000	240,000	0	240,000	0	0	+60,000	+18,000	+78,000	0	+60,000	+60,000
300,000	270,000	-30,000 -10%	30,000	240,000	0	240,000	24,000	-30,000	+60,000	+18,000	+48,000	0	+60,000	+60,000
300,000	240,000	-60,000 -20%	0	240,000	0	240,000	48,000	-60,000	+60,000	+18,000	+18,000	0	+60,000	+60,000
300,000	210,000	-90,000 -30%	0	210,000	0	210,000	42,000	-60,000	+60,000	+18,000	+18,000	-30,000	+60,000	+30,000
300,000	180,000	-120,000 -40%	0	180,000	0	180,000	36,000	-60,000	+60,000	+18,000	+18,000	-60,000	+60,000	0
300,000	150,000	-150,000 -50%	0	150,000	0	150,000	30,000	-60,000	+60,000	+18,000	+18,000	-90,000	+60,000	-30,000

Note:
1. Buyers' loss are capped at the initial capital (20% of property value), even if the property falls more than 20%
2. Investors are guaranteed 5% yield per annum on capital even if the property value falls by up to 20% and will only lose their capital if value falls more than 40%
3. Property developers only get the balance 20% of initial purchase price if the property appreciates at least 20% after five years

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Peer-to-peer model is worth deeper research

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still have to take a RM300,000 mortgage after five years. That is why someone who can comfortably service a RM300,000 mortgage today and is confident home prices would not fall should just take a conventional mortgage.

If he or she cannot get the RM300,000 mortgage today, however, the 20% equity, or RM60,000, paid over five years instead of paying rent, would be equivalent to saving for a deposit while also having a place to live in or rent out for five years.

Potential consumption boost

If the house price were to appreciate 20% to RM360,000 after five years, because there is already RM60,000 equity, the buyer would only need to top up another RM12,000 to keep a 20% portion and roll over the scheme for another five years or take a RM300,000 loan to buy the investors' 80% equity interest. The buyer can also choose to walk away and get the RM60,000 back.

Imagine how the economy can potentially benefit from increased consumption power if one only needs to top up RM12,000 to get another five years' use of the property — that RM12,000 works out to rent of RM200 a month over five years.

What are the trade-offs?

FundMyHome's proposal is not a free lunch for the buyer. There is still the risk that comes with any investment in real estate, but the risk to the buyer is capped at the amount forked out to pay for the 20% equity interest.

Someone renting for the same amount would not have anything to show at the end of five years anyway, but people who are living with their parents would be taking on a risk that comes with any investment.

Because the risk to the buyer is capped at the initial 20% and the buyer gets full usage of the house for five years, any upside to the value of the property is also shared with the investor and property developer.

This is why someone who can afford a mortgage and is confident of property prices going up should just take out a loan.

By FundMyHome's calculation, buyers who can get a mortgage would be better off taking out one if the value of the home goes up at least 17% after five years. The buyer would be better off under FundMyHome if the home price goes down or appreciates less than 17%.

Why do property developers get a share of upside?

Many do not know that the developer only takes 80% of the house price up front. The remaining 20% is used to pay investors a 5% yield. Developers will only get the 20% back from the first 20% appreciation in the value of the house — a major incentive for them to make sure that they put up good properties for sale on FundMyHome.

If a RM300,000 house appreciates by only 10% to RM330,000 after five years, the developer only gets RM270,000 for it — RM240,000 up front and RM30,000 after five years.

This is how FundMyHome is able to provide enough incentive for investors looking for yield to come in, without tapping on monetary assistance from the government.

The developer gets 80% up front at the point of sale to cover most of its cost as well as a chance to demonstrate its confidence that it sold a decent property that can appreciate in value after five years.

Why the lion's share of upside for investors?

Our parents may give us the money interest free but investors need enough incentive to help because they, too, have stakeholders to answer to.

These stakeholders could well include the general public if it involves money from institutions such as Permodalan Nasional Bhd, the Employees Provident Fund and Kumpulan Wang Persaraan (Diperbadankan) — essentially entities with capital preservation considerations looking for low-risk investments that provide a decent yield or a predictable income stream.

Investors need to be given reason to foot the initial 80% cost of the house because they are not obliged to help fund home ownership and are free to put their money elsewhere.

Developers get hit first before the buyers and investors

The incentive for investors is simple under FundMyHome — they get a guaranteed 5% yield every year. Investors' return will only get eroded if the price of the house falls more than 20%, but because of the 5% yield, they can be assured of getting back their capital unless the house value falls more than 40% after five years.

The 5% yield, 40% stop-loss buffer and potential 80% share of valuation gains (after the first 20% that goes to the developer) are the carrot for investors.

For the buyer, the carrot is the usage of the home for five years and the chance to turn rent money into 20% equity ownership of a property that he or she otherwise would have trouble making a down payment for.

Developers benefit when more people are able to buy homes, but will not get more than the remaining 20% they did not take up front, even if the price of the property rises a lot more than 20%.

Because FundMyHome is meant for first-time homebuyers, who have to sign on for five years, there is some certainty that the demand to own a home is real, rather that adding fuel to property speculation.

Avenue for deeper studies

Part of the reason home prices have increased so much around the world in recent years is because of the record low interest rate regime globally that had fuelled never-before-seen gains in asset prices. This low interest rate regime has only begun to reverse with the US Federal Reserves' interest rate hike this year. Already property prices have increased so much that rental income may not always be enough to cover the amount needed to service a conventional monthly mortgage.

While history shows property prices generally do not fall over the long term, there is no real guarantee that prices will continue to go up, let alone at the pace it has risen in recent years.

There might be investors who are willing to take a smaller return than what is offered under FundMyHome but they would generally need some assurance that their capital is safe and some certainty in yield.

Unlike the government, investors first have an obligation to their stakeholders before doing any public service. What FundMyHome has proposed provides investors enough incentive without requiring the government to give any financial guarantee. Others are free to come up with a similar scheme because FundMyHome is not a monopoly.

As the money that would have otherwise gone to paying rent has now turned into equity via a platform, renters can get on the property ladder earlier without having to take on debt they cannot afford by using the rent money.

Thinking ahead, the peer-to-peer model is worth deeper research as it is not just developers that have properties to sell. There will also be people who may want to monetise their properties to get income for their old age as there may not be enough from, say, just renting out a room.

The potential consumption boost from spending less money on having a roof over one's head is also worth further research.

While potential homebuyers stand to benefit more if the government were to provide cheaper homes or guarantee their loans, a platform that brings investors, house buyers and developers together can help provide an alternative solution to renting in the real world we live in.

Like any new model, there is always room for improvement.

It is important that people who are passionate about bridging Malaysia's home ownership gap without burdening the lower and middle-income group or endangering the broader economy continue providing inputs and constructive criticism on improving the model.

"The standard response by many is that if you cannot afford to own a home, you should rent [because] it is better not to take on excessive risk. FundMyHome was created to try and resolve the dilemma: How can I own a house if I cannot afford to at this time? At first glance, it is a contradiction. But is it? All we ask is [that people] be open-minded and hear us out because if it works, imagine the lives we can help," said Tong. ◘