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Additional credit facilities would keep house prices high

The Malaysian Reserve, Malaysia



REHDA

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by FARA AISYAH

THE government's good intentions of easing homeownership among the less affluent segment of the society by planning six new home loan schemes could be detrimental to the buyers in the long run as house prices might remain on the higher spectrum.

Institute for Democracy and Economic Affairs senior fellow Dr Carmelo Ferlito (picture) said the additional credit is "dangerous at two levels".

"One, it fuels a credit-oriented mentality, when it is necessary for Malaysians to learn how to live according to actual possibilities, rather than on borrowed money.

"Two, it puts Malaysians at risk in the long run, as low-income classes are more fragile from the financial perspective. Further credit will spread in the medium and long run, where the risk of facing difficult moments increases," he told *The Malaysian Reserve*.

Ferlito said a high level of financial exposure would not help the masses in



Pic by Arif Kartono

facing more difficult economic conditions as it would raise the risk of instability and crackdown.

He added that while having more credit facilities would further support the industry that has over-expanded in the past years, it might be detrimental to those in the middle-

and low-income classes.

Malaysia's household debt is already high, at around 85% of GDP, he said.

"My fear is that these new measures, while surely good-hearted, might damage the people they want to help. I would rather focus on educational initiatives to improve financial literacy and on affordable rent schemes," Ferlito added.

Asiacap Valuer & Property Consultants Sdn Bhd property valuer Kit Au Yong said the market should be wary of the fact that if the new loan schemes are to loosen the criteria for financing, it will only increase the loan commitment versus their income.

"With that, this measure will not be addressing the issue of 'unaffordability', but instead, it only increases the debt-to-income ratio.

"It will be good if the government can look deeper by targeting the supply and demand issues and the driving forces that affect those issues," Au Yong said.

He said the government could look into the supply of land in specific

locations that is "livable", compared to a location that is far from amenities such as transportation and job opportunities.

Au Yong added that beyond the Housing and Local Government Ministry's (KPKT) role, the demand factor of insufficient income may need a push.

Consumers can also be encouraged to adopt the renting lifestyle instead of owning a home, while building up their financial capacity to buy their homes in the future.

KPKT Minister Zuraida Kamaruddin recently said the government is expected to introduce six new home loan schemes in mid-October, after the central bank announced its decision to ease home lending rules effective Sept 1.

She added that the government is in the final stage of discussion to make more end-financing options available for low-income groups, which is in line with the federal administration's target to build one million affordable homes.

"We would have six different schemes with participation from about 15 different financial institutions like

Cagamas Bhd, commercial banks and investors who will be offering various financing models like rent-to-own schemes," Zuraida told reporters in Putrajaya last week.

Bank Negara Malaysia has also revised the criteria for its RM1 billion Fund for Affordable Homes.

The fund has been expanded to include a maximum household income of RM4,360 from RM2,300 previously, an extension of the repayment duration to 40 years from 30 years, and a reduction of monthly instalment payments by 20%.

"If extra 10 years is being extended, it may extend beyond the productive career life of the person, as the person may retire by the official age of retirement. On top of that, there is an additional interest for the extra years.

"Extending the coverage of income to above RM4,000 is good news, especially for middle-income families residing in urban areas where the cost of living is much higher and house prices are much more compared to the less urban areas," Au Yong said.



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SUMMARIES

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