

# AFFORDABLE HOME OWNERSHIP

## Financial Sector Perspective

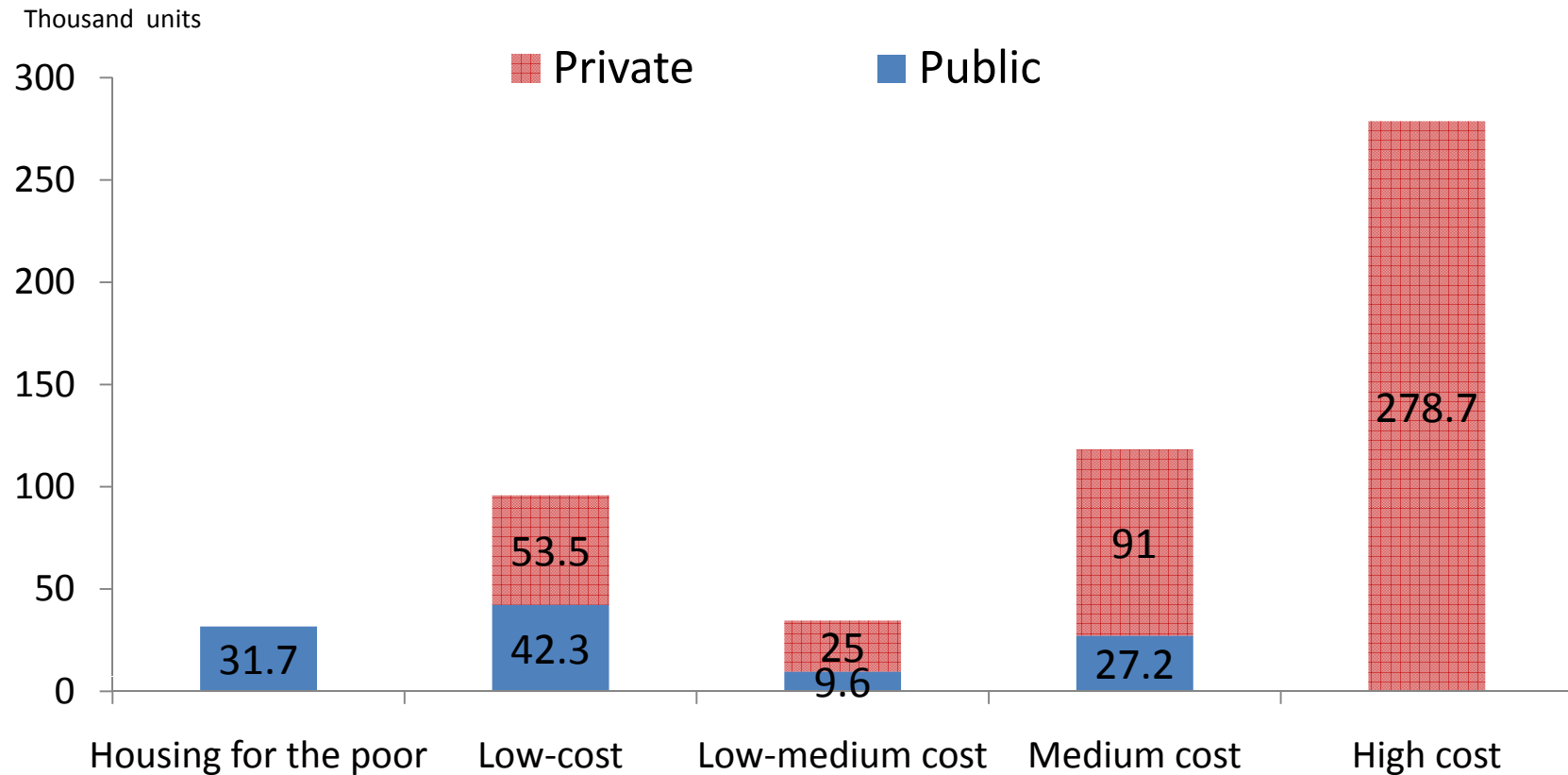
**Rajan Paramesran**  
**Vice President**  
**16 July 2012**



# Private versus public role

- Private sector has played the dominant role in housing development and home ownership
  - Commercial banks are the biggest originators of housing loans
- Government, through its agencies, has been key in ensuring availability of low-cost housing through:
  - Mandated lending
  - Interest rate ceiling

# PUBLIC VERSUS PRIVATE FUNDING FOR AFFORDABLE HOUSING\*



\* Ninth Malaysia Plan

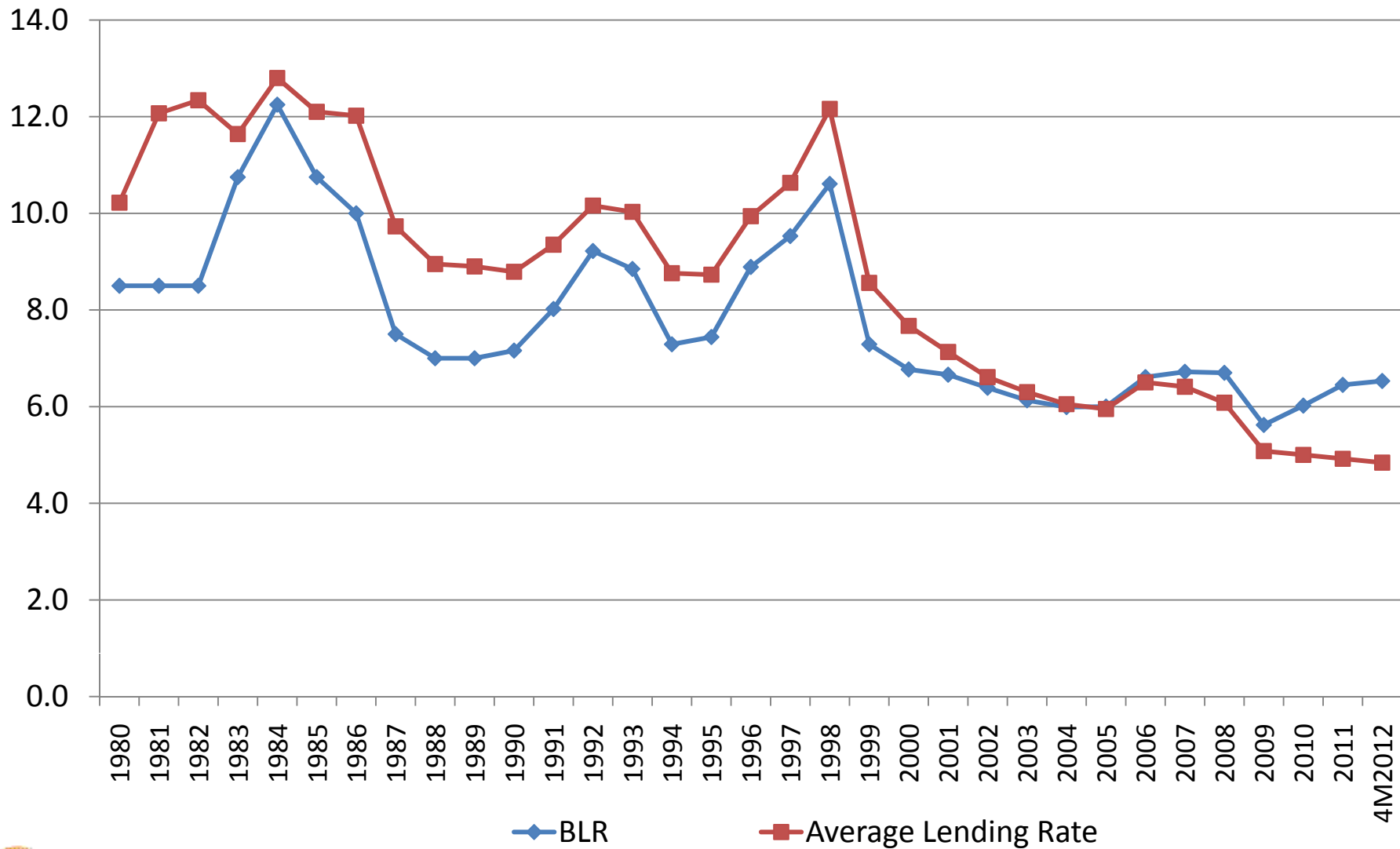
# Defining Affordability

- Affordable at what price?
  - RM25,000, RM75,000, RM150,000 ...RM350,000
- Can a ceiling be established on affordable price ?
  - RM220, 000, RM400,000

# Easy Financing

- ❑ Performance of housing sector in recent years has been driven by:
  - Low interest rate environment
  - Ample liquidity in the banking system
  - Attractive mortgage financing
  - Government policies
  
- ❑ Will these factors hold to support affordable house financing going forward?

# BASE LENDING RATE (BLR) VERSUS AVERAGE LENDING RATE

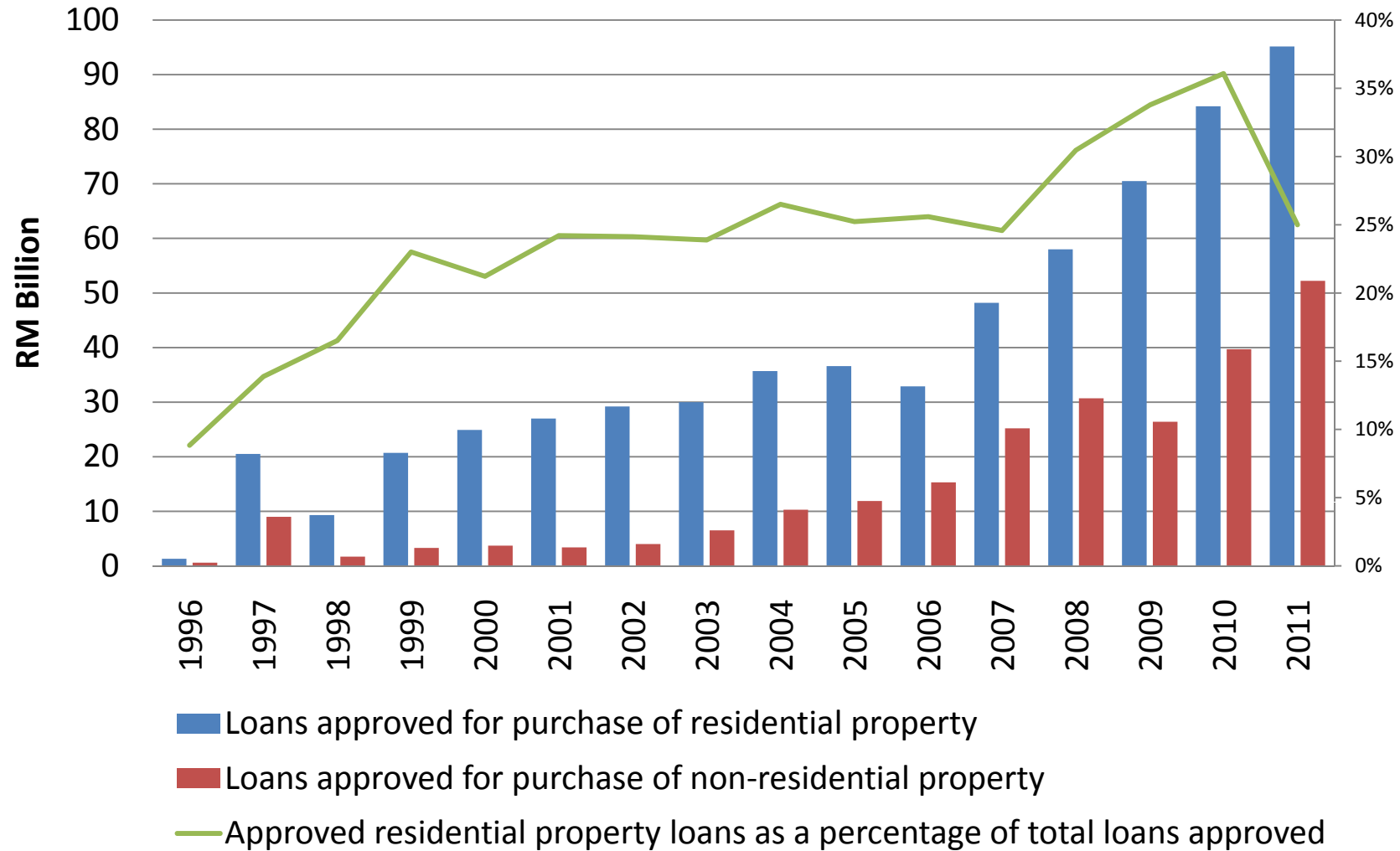


# Interest Rates

- Average BLR has increased from 6.3% pa to 6.8% pa but remains relatively low
- Though difference between Average Lending Rate and funding cost has narrowed from 306 basis points in 2009 to 273 basis points in 2011, but remain accommodative for housing loans
- Additionally, fixed deposit rates remain relatively low, providing incentive to switch funds to property purchases



# Loans to residential sector (1996-2011)





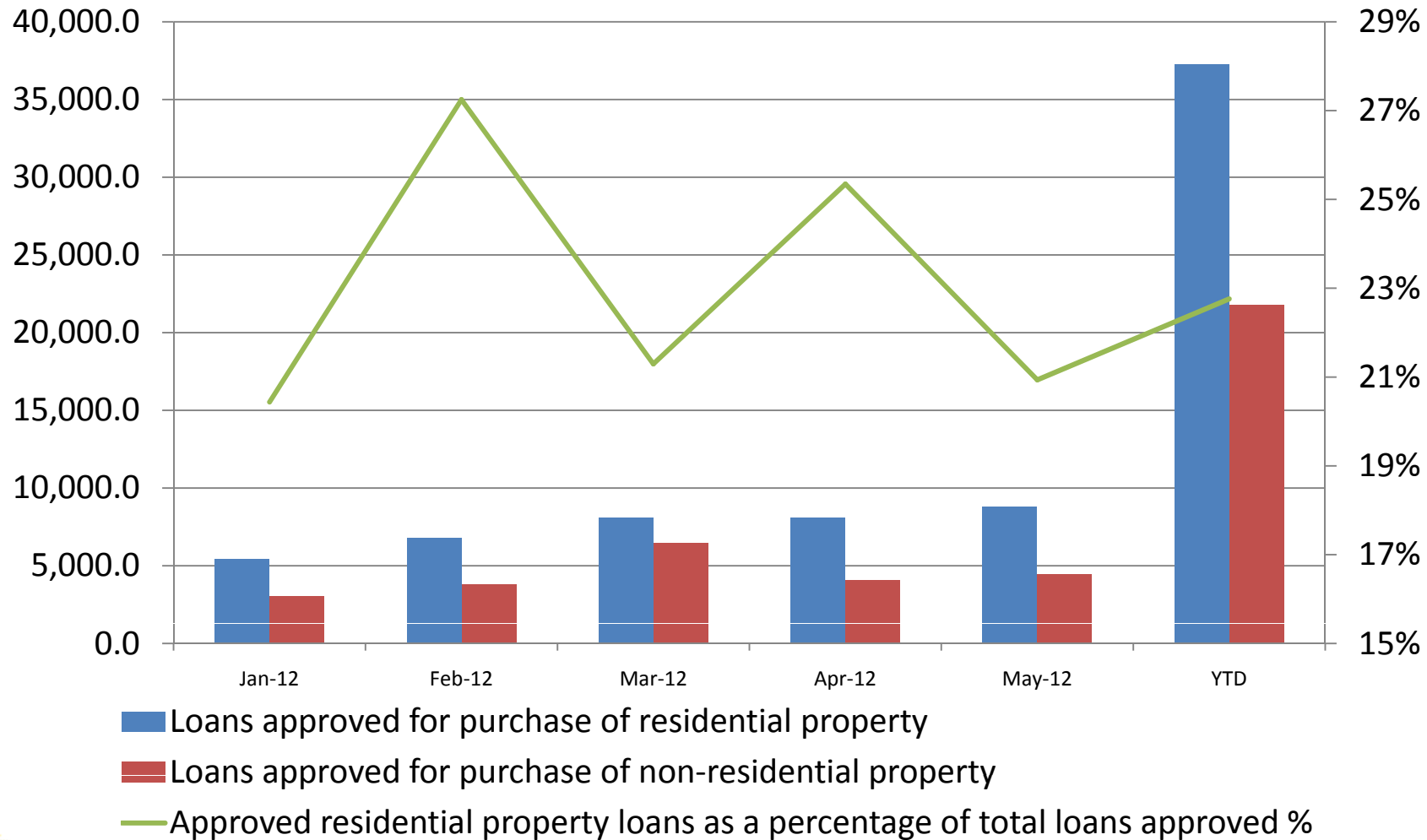
# Government Policies

- Announcement of exemption of real property gains tax in March 2007
- 50% exemption of stamp duty on purchases of houses below RM250, 000
- Monthly withdrawal from EPF Account 11 for the repayment of housing loans effective January 2008.
- Tax relief of up to RM10,000 a year for three years on interest paid on housing loans.
- Housing loan applications and approvals shot up to 43.8% and 27.3% respectively in 2007 (2006: - 7.2% and -11.5%).

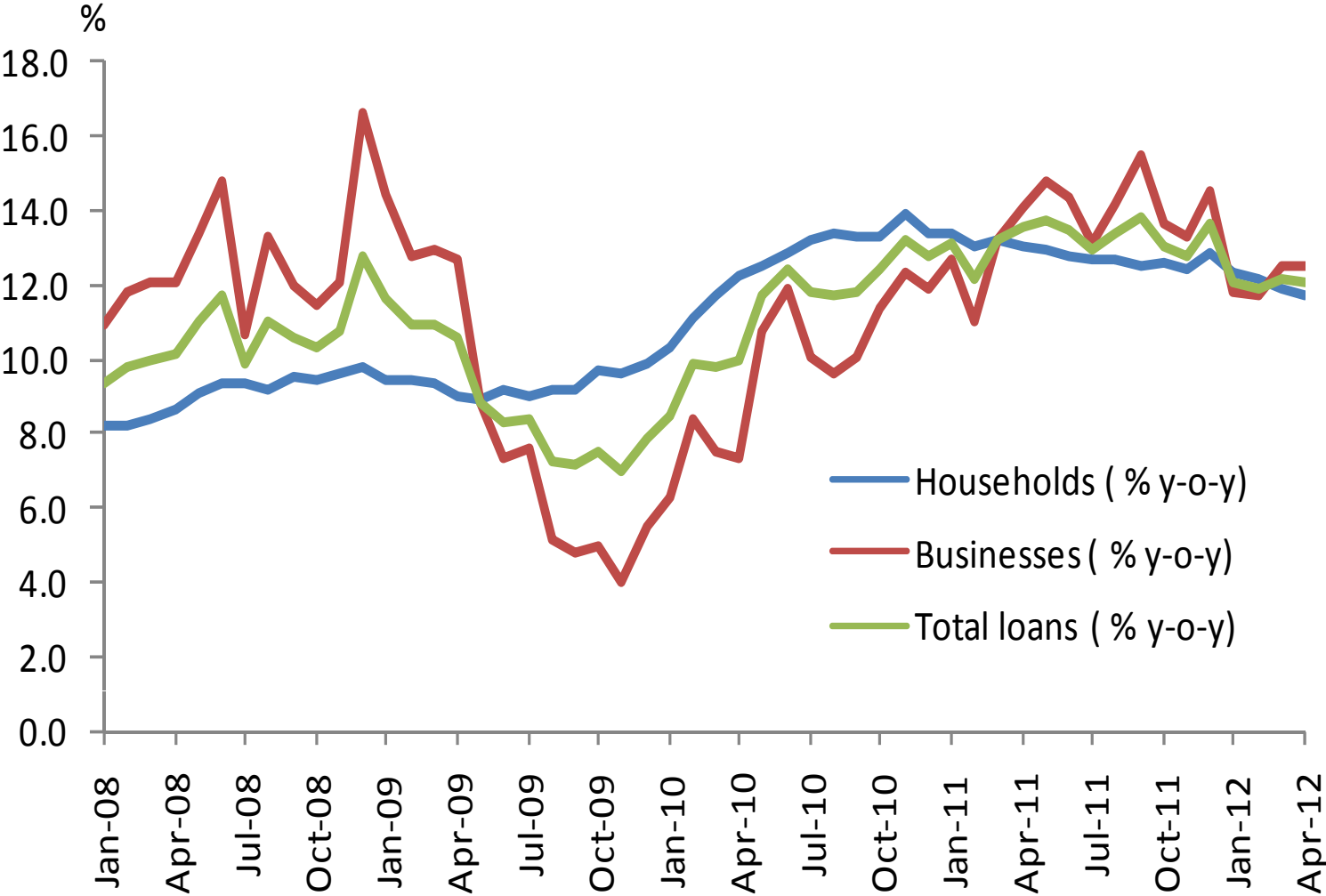
# A need to slow down

- Reducing loan-to-value (LTV) for third purchases to 70%
- 5% RPGT for properties sold within 5 years of purchase, later increased to 10% for properties sold within 2 years of purchase
- Using net income as basis to calculate loan eligibility effective from 1 January 2012
- Also banks would need to increase risk weightage for LTV exceeding 90%

# Loans to residential sector (Jan-May 2012)



# HOUSEHOLD LOAN GROWTH



# MEDIAN MONTHLY GROSS HOUSEHOLD INCOME

	Mean Household Income (RM)		Average Annual Growth Rate (%)	Median Household Income (RM)		Average Annual Growth Rate (%)
	2004	2009	2004-2009	2004	2009	2004-2009
Malaysia	3,249	4,025	4.4	2,186	2,830	5.3
Urban	3,956	4,705	3.5	2,759	3,426	4.4
Rural	1,875	2,545	6.3	1,394	1,829	5.6

Source: 10<sup>th</sup> Malaysian Plan



# Conclusion

- Household debt
  - During the period 2000-2009, household debt grew at an annual rate of 13.5%.
  - Household debt-to-GDP increased from 46% in 2000 to 76% in 2009.
- Loan quantum needed to finance 'affordable' houses
  - Monthly installment payment can be onerous on households