

BNM doubles down on lending guidelines

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KUALA LUMPUR — In response to requests for Bank Negara Malaysia (BNM) to review its lending guidelines in relation to the extension of loan repayment periods from 35 to 40 years, the central bank doubled down, noting that these same guidelines 'exist to ensure borrowers' affordability.

"BNM wishes to state that financial institutions will continue to lend to individuals who can afford to take on a housing loan, including for the purchases of their first homes.

"In July, outstanding housing loans extended by financial institutions continue to grow at 10.1% year-on-year (y-o-y) and totalled RM460.2 billion. About 75% of borrowers (approximately 1.5 million borrowers) with housing loans are first time house buyers," the central bank said in a statement released yesterday.

It added that access to financing is not the main problem confronting potential buyers of affordable houses — as noted by various developers and that brought about the developer money lending proposal by Urban Wellbeing, Housing and Local Government Minister Tan Sri Noh Omar recently.

"The fundamental issues that require resolution are affordability and the shortage of supply of reasonably priced houses.

"The implementation of BNM's responsible financing guidelines serves to protect individuals' interests so that they borrow within their capacity to repay the loans throughout its tenure.

Example of home loan financing

	Loan tenure of 35 years	Loan tenure of 40 years	Difference
Loan amount (RM)	60,000	60,000	
Financing rate (%)	4.65	4.65	
Monthly instalment (RM)	289.55	275.55	14.00
Total cost of financing (RM)	121,612.35	132,264.03	10,651.68
Difference in total cost			8.8%
Loan amount (RM)	300,000	300,000	
Financing rate (%)	4.65	4.65	
Monthly instalment (RM)	1,447.77	1,377.75	70.02
Total cost of financing (RM)	608,061.73	661,320.16	53,258.43
Difference in total cost			8.8%

Source: Bank Negara Malaysia

"This is to prevent borrowers from falling into financial hardship due to excessive debt burden that may lead to foreclosures which will undermine the objective of house ownership," the central bank said.

It noted that financial institutions are responsible to establish that borrower's income after statutory deductions, expenditure on necessities and all

other obligations are able to meet debt repayments. This is to ensure that borrowers can continue to service the loan and have sufficient financial buffers for living expenses and deal with any future increase in financing rates and rising costs, BNM said.

The central bank added that the maximum housing loan tenure of 35 years is more than sufficient for borrowers to settle

their housing loans by their retirement age.

"For example, if the housing loan is offered when the borrower is 25 years old, a financing tenure of 35 years would extend to the retirement age of 60 years old.

"In addition, increasing the loan tenure to 40 years will further add to the total cost of financing without significant improvements in the affordability of one's monthly instalment," it said.