Set quota for 'cheaper' housing loans: Analyst

> Fixing of rates by regulator will impact banks' net interest margins, provisioning

BY **EE ANN NEE**
sunbiz@thesundaily.com

PETALING JAYA: There must be a quota in the proposal by the government to reduce housing loan interest rates, as banks may not necessarily abide by suggestions that could add to their costs.

"I don't think all applications for housing loans must be under this scheme. Banks will follow but they must allocate a quota for this. It's like the PR1MA (1Malaysia People's Housing Programme) where they allocate a certain amount for the scheme," a banking analyst, who declined to be named, told *SunBiz*.

The analyst said different banks have different base rates, which determine their interest rates.

"If Bank Negara Malaysia (BNM) fixes the rate, this will impact the banks' net interest margin because the way banks derive their base rates is very different. Some banks have high expenses and some have a low profit margin," he said.

The analyst added that the Malaysian Financial Reporting Standards 9 (effective Jan 1, 2018) requires banks to make provisions for expected credit losses, rather than the current practice of providing only when losses are incurred. This means that banks will evaluate potential losses from borrowers' default rate on loans.

"If BNM sets the rate, banks will incur more provisions, which will in turn increase credit costs," said the analyst.

Since Jan 2, 2015, new loans have benchmarked on the base rate, which replaced the base lending rate (BLR) as the main reference rate for new retail floating rate loans, because BLR was thought to have become less relevant as a reference rate for loan pricing.

According to BNM, the base rate will be determined by the banks' benchmark cost of funds and the Statutory Reserve Requirement. Other components of loan pricing such as borrower credit risk, liquidity risk premium, operating costs and profit margin will be reflected in a spread above the base rate.

The expected strong link between the base rate, market interest rates and the Overnight Policy Rate (OPR) will facilitate more complete adjustments to retail loan repayments when market interest rates adjust to an increase or a decrease in the OPR.

Last week, the OPR was increased by 25 bps to 3.25%, the first time since July 10, 2014. Possible downside risks from the OPR hike will be a slowdown in loan growth, either from lower loan demand or from higher loan rejection rate.

When a bank makes any adjustments to the base rate, a corresponding adjustment to the BLR will also be made.

The annual interest rate in the market for a standard 30-year housing loan/home financing product with a financing amount of RM350,000 and no lock-in period averaged 4.68%.

"The current loan rates are manageable and affordable as banks don't gain too much and as borrowers, we're not paying to much. It's affordable and manageable," opined the analyst.

Still, a proposal that would reduce housing loan interest rates across banks nationwide is expected to be presented to the Cabinet soon, which will ease the financial burden of those applying for house loans. Deputy Prime Minister Datuk Seri Dr Ahmad Zahid Hamidi has said one of the reasons many housing units remain unsold is not just due to the supply glut but also to the inability of people to secure proper financing from banks.

The proposal was initially tabled by the National Housing Department and will need the approvals of the Cabinet and BNM for it to go through.

REUTERSPIX

File picture of a residential apartment building under construction in Johor Baru.