

Housing Loans in Malaysia: Market Trends Analysis during Pandemic

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Abstract

The property sector's performance has a strong impact on the Malaysian banking industry, faced serious challenges in 2020 as consumer sentiment turned cautious. According to The Central Bank of Malaysia (BNM), Gross Domestic Product (GDP) for construction sector represented a -10.4% (Q1 2020) drop from the previous year (7.9% at Q1:2019). Hence, Malaysian government is seen trying to mobilize the real estate and banking sectors by introducing various short-term plans to encourage home purchases in addition to the lowest Overnight Policy Rate (OPR) in the country's history. However, the total increase in impaired loans (NPLs) for housing loans has increased by 27% in June 2021 compared to June 2020. This study will analyze the pattern of household's mortgage loans in Malaysia based on different income groups during the pandemic. The findings show that the groups of household experienced difference pattern of property loans during the pandemic. The implications are that banks are advised to set loan criteria, especially housing loans so that the quality of borrowers can be improved. This is to avoid an increase in the number of impaired housing loans (NPLs) and the number of bankruptcy cases that can have a negative impact on financial institutions and the national economy.

Keywords: residential market; housing loan; loan patterns; consumer sentiment

1. Introduction

Since the outbreak of the Covid-19 epidemic in early 2020 in Malaysia, there has been a total closure of the economic and social sectors or 'total lockdown'. According to Zamani, Rahman, Fauzi and Yusof (2021), the construction sector faces two main problems, namely in terms of operations and finance. From an operational point of view, regarding the project timeline, the developer had to face project delays extended from the Movement Control Order (MCO) from 18 March 2020 to 31 December 2020. Although the construction industry could resume operations starting on 4 May 2020, the project timeline changes occurred because construction activity has ceased during the MCO. In fact, the progress of the project at the construction site is relatively slow following the need to follow the Standard Operating Procedure (SOP) such as operating time and the number of employees set by the government. Meanwhile, from a financial point of view, developers face the problem of late payment, increased project costs and project reduction. Project payments are usually paid in installments especially for government projects.

Meanwhile in the banking sector, although still resilient, the deteriorating quality of borrowers has exposed a challenging business environment to banking institutions in the country. The slowdown in growth in the banking sector is due to the moratorium assistance by postponing the repayment of bank

loans from 1 October 2020 to ease cash flow and financial burden borne by the people and traders. As a result, the gross impaired loan ratio (GIL) of banking institutions in the country increased to 1.56% compared to 1.51% recorded in 2019. The increase in total impaired loans increased by 24% in June 2021 (RM8,161 million) compared to June 2020 (RM6,599 million). Impaired loan levels, high NPLs (Non-Performing Loans) cause weak credit growth which in turn slows down a country's economic recovery (Aiyar, Bergthaler, Garrido, Ilyina, Jobst, Kang, Kovtun, Liu, Monaghan & Moretti, 2015; Kalemli-Ozcan, Laeven & Moreno, 2015).

Surprisingly, housing loans in banking institutions as a whole increased by 7.1% in 2020 compared to 2019 (BNM, 2021). According to the Bank Simpanan Nasional Annual Report 2020 (BSN, 2020), the positive response from households to these housing loans following the implementation of effective mitigation measures and stimulus has helped the Malaysian economy remain resilient despite unexpected challenges. Accordingly, this study aims to identify the pattern of housing loans in Malaysia before and during the pandemic according to household income class. Therefore, the question arises whether Malaysians are really affected during the pandemic? Or just trying to take advantage of buying a home following the drop-in mortgage interest rates during the pandemic despite most likely not being able to afford it? Therefore, this article will analyze the pattern of household's property loans in Malaysia based on different income groups during the pandemic

2. Literature Review

2.1 Dumping of Unsold Residential Homes

The issue of dumping of unsold homes has long been the concern of researchers. According to Kamaruddeen, Yussof & Said (2015), the total dumping of unsold residential houses is due to the attitude of developers who do not make market research and financial feasibility study. Farah Diva and Cheong (2006) who studied the dumping factor of unsold houses in Johor found that not all developers who carry out housing projects in the state make a feasibility study that includes site components or study location, population economic study, market study, building design study and analysis financial. House price is the most important factor influencing the dumping of unsold residential houses because it influences individual decisions (Nasar & Manoj, 2015). Harahap (2018) also states the same thing where there is a positive relationship between price and demand for residential houses that influences individual decisions. Individuals often compare the price of land in one location with another. However, according to Vidada and Rakhmanita (2017), although cheap house prices always get the attention of consumers, however, the low quality of cheap houses also has implications for buyers' decisions.

According to Azima, Nor Aziah and Mohd Yusoff (2012), the situation of dumping of unsold housing units in Johor is not only influenced by the attitude of developers but also due to the attitude of the buyers themselves. Relationship limitations whether lack of information, differences of opinion, unfulfilled expectations and differing interests between agents have long-term implications for housing projects. This situation ultimately creates feelings of distrust, suspicion and ridicule that ultimately affect the interaction relationship between the housing agents involved in the state.

Accordingly, in this pandemic era, developers in the housing industry are asked to re-evaluate housing projects to curb the problem of dumping of unsold housing units in the country (Asri, 2020). The housing industry not only suffered a loss of about RM11.6 billion during the period March 18 (when the Movement Control Order began) to April 14 this year, and another RM6.9 billion was recorded following the reopening of 13 sub-sectors 15 from April to 1st May 2020. In fact, following the government's proposal to lower house prices as well as the ability of households to repay housing loans which is now assessed more strictly by banking institutions to avoid the risk of repayment.

2.2 Residential Loans during Pandemic Crisis

The government's monetary and fiscal policies are expected to remain supportive of the country's economic recovery despite Central Bank of Malaysia (BNM) recent decision to ensure that the Overnight Policy Rate (OPR) remains unchanged at the lowest rate. Monetary policy has limited power to control house prices (Antipa & Lecat, 2009), yet the decline in the OPR affects household bank loan demand (Kohansal & Mansoori, 2009) although banking practices such as loan tenure are important determinants of house price changes (Antipa & Lecat, 2009). In Europe, lending for home purchase continued to increase in 2020 at a composite lending rate for home purchase at a low of 1.3% at the end of 2020. Finally, amid economic uncertainty, the private sector and institutions have contributed to housing demand for investment motives (Moreno, 2021).

Meanwhile in Malaysia, the Malaysian property market for housing market activities also experienced a drastic increase in demand especially by the third quarter of 2021. The increase in bank loan demand by households was driven by the environment of low interest rates from banking institutions compared to before the pandemic era. The lowest OPR rate in history of 1.75% since the third quarter of 2020 (7 July 2020) has attracted Malaysians to take out housing loans. Based in Figure 1, in 2020, housing loan applications received by banks amounted to RM194.4 billion. During the same period, banks approved home financing of RM137.7 billion or about 307,800 accounts. 43% of newly approved home loans are given to first-time home buyers (2013-2019 average: 41%). The overall housing loan approval rate was 72.0% at end-December 2020 (2013-2019 average: 74.5%).

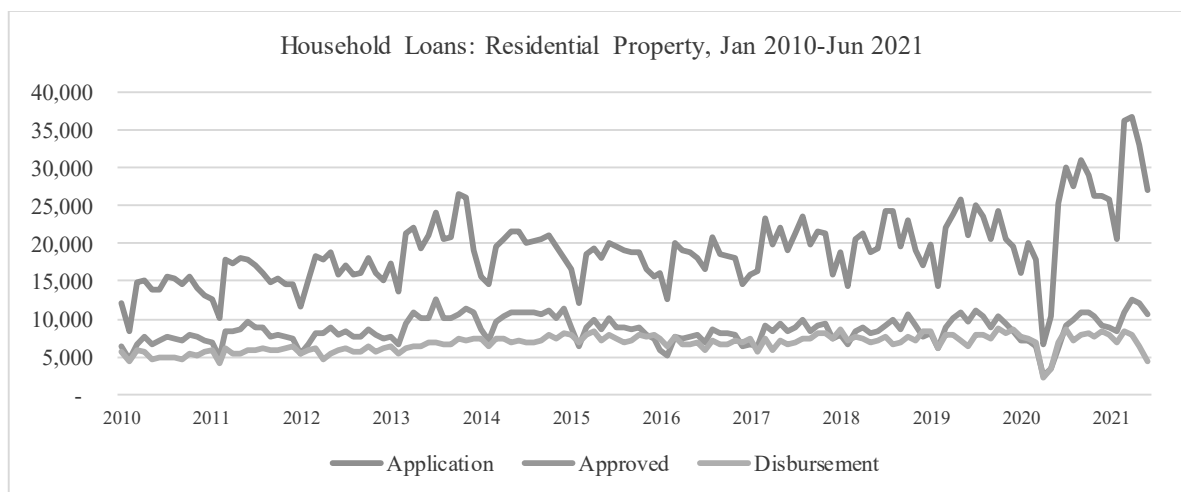


Fig. 1: Household Loans for the Residential Housing Segment (Jan 2010 - Jun 2021)

Housing loans in arrears by the banking system grew by 7.1% as at end December 2020 to RM646.8 billion. Figure 2 shows the trend of affected housing loans (Non-Performing Loans, NPLs) by households before and during the Covid-19 pandemic. BNM reported that more than 90% of households were still resilient to bank loan repayments before the automatic moratorium was implemented. However, overall the total increase in NPLs for housing loans has increased by 27% in June 2021 compared to June 2020 with RM8,161 million in June 2021 and RM6,598 million in June 2020, respectively. Covid-19 compared to the pre-pandemic era. In fact, the number of bankruptcy cases registered in 2020 increased most significantly in September by 1,222 cases compared to 641 cases in September 2019 (National Insolvency Department, 2021).

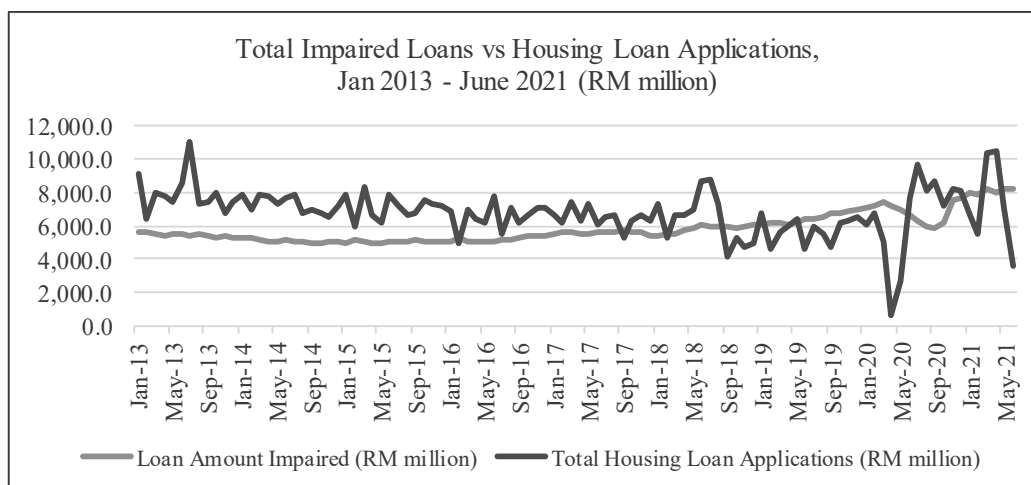


Fig. 2: Total Housing Loans Affected and Total Housing Loan Applications (Jan 2013 - June 2021)

However, the offering of the moratorium starting in April 2020 is seen to provide relief to Malaysians based on the decrease in the number of NPLs in September 2020 compared to April 2020 which is almost 20%. However, the implementation of the moratorium under the People's Protection and Economic Recovery Package (PEMULIH) is not long-term. Meanwhile, based on statistics from BNM, the number of housing loan applications increased more than 10 times with RM642.8 million (April 2020) and RM8,602.1 million (September 2020) respectively. However, banks that are still taking precautions on household loans conditions or criteria of borrowers, especially individuals who already have high debt commitments, individuals who have very little disposable income balance after taking into account living expenses monthly, have a poor credit history in addition to insufficient documentation to support or convince the bank to repay the loan.

For household individuals who want to make a housing loan, the government provides advisory services including the *Rumahku* Financial Education program under the Credit Counseling and Management Agency (AKPK) so that individuals can understand the financial commitment involved in buying a house. This initiative is aimed at reducing the rate of affected housing loans in the country. This is because housing loans are the third highest loans that contribute to individual bankruptcy in the country after personal loans and vehicle hire purchase (National Insolvency Department, 2021).

In addition, the Malaysian Property Market Index in the Second Quarter of 2021 shows that overall residential house prices in Malaysia have contracted by 1.79% compared to the second quarter of 2020 driven by the extension of HOC by the government. Through the HOC Campaign, housing developers are given stamp duty exemption along with incentives to home buyers in the form of a deduction of at least 10 per cent on the selling price. In addition, the real estate gains tax (RPGT) exemption from 1 June to 31 December 2021 has stimulated the country's housing market. BNM also imposed a loan-to-value (LTV) limit of 70% for properties worth RM600,000 and above on third housing loans. In fact, to overcome the dumping of unsold new residential units, followed by housing projects under construction as well as sub-sale housing market competition, developers offer various incentives such as discounts, cash rebates and gifts to streamline their property inventory. However, overall, the House Price Index (HPI) is still increasing from year to year.

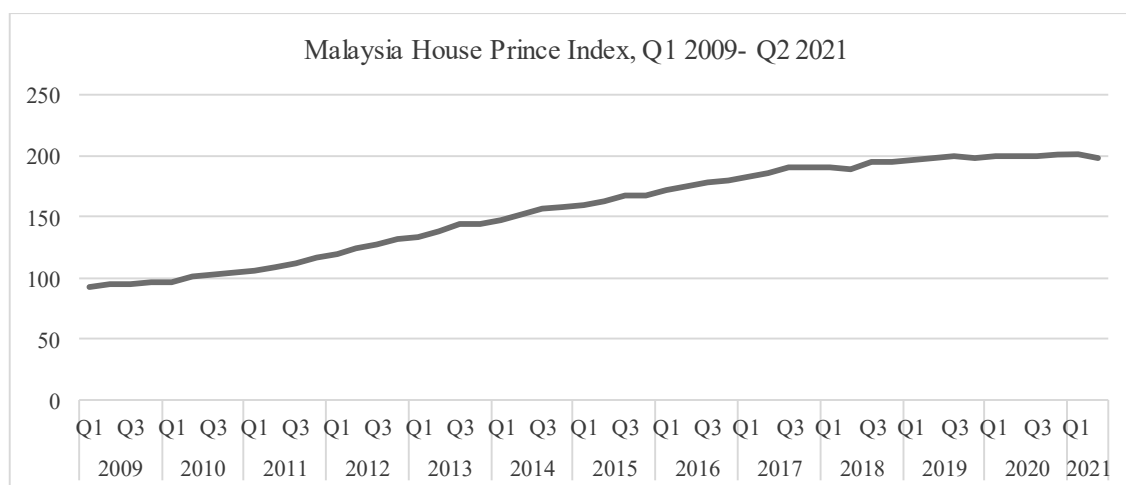


Fig. 3: Malaysia House Price Index, Q12009-Q22021

3. Methodology

This study involved a total of 362 respondents consisting of households living around the Klang Valley. Respondents come from a variety of backgrounds including gender differences, marital status, age, education level, and total income. To study the relationship between household housing loan patterns and income class, multiple regression analysis method was used in this study. Respondents were classified into three income categories namely T20, M40 and B40. The study was conducted with the distribution of online questionnaire forms.

4. Results and Findings

TABLE 1 shows a total of 362 respondents consisting of 154 (43%) males and 208 (57%) females. The findings show that the majority of respondents have married status, which is 231 (64%). Followed

by 105 (29%) single respondents and 26 (7%) divorced/single parents. In terms of age, it was found that the most populous age range was in the range of 31 to 40 years, 142 (39%), followed by 41-50 years, 119 (33%). The education level of the majority of respondents is at the degree level which is 184 (51%), followed by PMR/SPM Education level and below which is 112 (31%).

TABLE 1: Profile of Respondents Based on Income Category

Profile	Income Level			Total
	B40	M40	T20	
Sex				
Male	63(41%)	84(55%)	7(4%)	154(43%)
Female	142(68%)	62(0%)	4(2%)	208(57%)
Marital Status				
Single	97(92%)	8(8%)		105(29%)
Married	164(71%)	62(27%)	5(2%)	231(64%)
Divorced/single parent	19(73%)	6(23%)	1(4%)	26(7%)
Age				
20 to 30	38(93%)	3(7%)		41(11%)
31 to 40	74(52%)	56(40%)	12(8%)	142(39%)
41 to 50	48(40%)	57(48%)	14(12%)	119(33%)
51 to 60	12(24%)	39(76%)		51(14%)
61 and above	4(45%)	3(33%)	2(22%)	9(3%)
Education Level				
PMR/SPM	112(100%)			112(31%)
STPM/Diploma	39(83%)	8(17%)		47(13%)
Degree	137(74%)	43(12%)	4(2%)	184(51%)
Master	7(58%)	5(42%)		12(3%)
PhD		5(71%)	2(29%)	7(2%)

TABLE 2 shows that this regression model has rejected the null hypothesis for ANOVA. Therefore, the value of F (219.223, df = 3) is significant. Thus, the independent variable was accepted to show the relationship of variance with the dependent variable and the estimation of the regression model was statistically consistent with the data. According to Guilford's (1957) suggestion, the strength of the relationship between the three income categories is highly correlated with the value of R (0.738) which indicates that there is a significant relationship between the variables at the level of 0.05. The number of variables can explain the 50.8% variance (R² adjusted) on housing loan demand (R² = 0.519).

TABLE 2: ANOVA for Housing Loan Demand

Model	Sum of square	df	Mean square	F	sig.
Regression	421.342	3	181.312	219.223	0.000***
Balance	395.466	359	0.738		
Total	964.423	360			

Note: R=0.738, R²=0.519, R² adjusted=0.508; *** at the significance level 0.01

The results of the study found that the proxy of household behavior for the three income classes indicated by the income variable has a positive and significant relationship with the demand for housing loans. This proves that income class affects housing loans in Malaysia. Category B40 which is the affected group showed a positive relationship with spending with the highest coefficient for the dependency factor (0.107), followed by the Education factor (0.003) and the savings factor (0.000). From the aspect of education, if an individual has higher Education, then they have better thinking and judgment in terms of

spending arrangements. Furthermore, for the M40 category, the results showed that there was a negative relationship with dependency factors and health factors. This means, individuals from M40 have stable finances compared to B40 income class. Furthermore, for the T20 category, only the income factor showed the highest and significant coefficient (0.000). This means, the higher the income class is said to be more likely to make higher expenditures in meeting unlimited needs and wants. Thus, it can be concluded that the level increase in the pattern of demand for housing loans is greatly influenced by income class.

5. Conclusion

This study has been able to look at the pattern of housing loans in Malaysia since the outbreak of the Covid-19 pandemic in 2020. The findings reflect the extent to which household income interacts with a challenging economic environment whether buying a home to meet needs or as an investment. These findings also prove that the demand for housing loans increased although the rate of housing loans affected also increased. The increase in demand for bank loans by households was due to the environment in which loan interest rates remained low from banking institutions compared to before the pandemic era. The lowest decline in the OPR rate in history - 1.75% since the third quarter of 2020 (7 July 2020) has attracted Malaysians to take out housing loans. In 2020, housing loan applications received by banks amounted to RM194.4 billion. During the same period, banks approved home financing of RM137.7 billion or about 307,800 accounts. 43% of newly approved home loans are given to first-time home buyers (2013-2019 average: 41%). The overall housing loan approval rate was 72.0% at end-December 2020 (2013-2019 average: 74.5%). Therefore, banking institutions in the country generally take precautionary measures in approving housing loans. The moderate level of approvals indicates the problems that occur in relation to housing affordability arising from the mismatch between supply and demand for housing.

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