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MEDIA STATEMENT

IDEAS and CME warn multigenerational year housing loans proposed by BMF further stress B40 financial stability

Kuala Lumpur, 04 May 2021 -The Institute for Democracy and Economic Affairs (IDEAS) and the Center for Market Education (CME) warned that the housing solutions proposed by the Better Malaysia Foundation (BMF), namely government-backed 100% financing to B40 house buyers through two-generation housing loans, may cause further stress on the financial stability of the rakyat. .

Both organizations argue that pushing BFM's products may saddle already financially strained B40 families and their children with additional debt. Instead, policymakers should consider alternative proposals to tackle housing unaffordability in Malaysia, including promoting guaranteed-rent policies as well as rethinking quality housing requirements.

Both organizations noted that while BMF should be allowed to offer their products in the market, they should do so without government support whether through the sale of land at low costs or government guarantees for housing loans. The top priority of state officials at this time should be to safeguard the rakyat's financial stability and to restore their savings capacity, allowing them to recover from the COVID-19 crisis and regain purchasing power.

As noted by IDEAS' Senior Fellow Carmelo Ferlito, "BMF's products should have to go through the market test in order to win consumers' favour, without the explicit backing of the government. This is surely better than top-down solutions offered by the government, as the entrepreneurial risks would be borne by BMF and not the taxpayers."

"Ultimately, 100% financing and up to 60-year loans are very dangerous instruments. These kinds of financing policies in the housing market, targeting home buyers who may not have the financial capacity to repay their loans, is what generated the 2007-2008 sub-prime mortgage crisis in the United States and Europe. These loans will simply become multigenerational, heaping on additional debt on already financially strained families as well as their children to come, setting an unhealthy precedent for household debt management."

As both organizations note, should BMF's proposals enter the market, financial literacy education will become even more critical. With Malaysia's household debt/GDP ratio reaching 93.3%, the country arguably has a much more urgent problem than home affordability. It should be noted additionally that the home-ownership rate in Malaysia is 77%. With policy ultimately composed of trade-offs, to further push on home-ownership means to further put under stress the financial stability of the rakyat, in particular of the B40.

Carmelo Ferlito notes, "A better proposal to the housing unaffordability issue in Malaysia would be the so-called guaranteed-rent method, in which the government would guarantee the mortgage and rent for property developers or owners to carry them economically, while in exchange the developer or owner would be required to select tenants from the group of people

designated by the government agency in charge. Such a solution would imply a lower financial burden for the government.”

“A second solution would be to rethink how quality housing requirements as set by the government’s National Housing Policy (NHP) 2018-2025, including minimum size requirements, parking size requirements and the newly-introduced smart-growth regulations, can inadvertently raise the costs of housing in Malaysia, particularly when we take a more holistic approach to analyzing housing affordability through the three elements of floor area, location and price per square meter or per square foot.”

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About IDEAS

The Institute for Democracy and Economic Affairs (IDEAS) is a nonprofit research institute, dedicated to promoting solutions to public policy challenges, focussing on three overarching missions – advancing a competitive economy, ensuring trust in institutions and promoting an inclusive Malaysia. IDEAS is Malaysia’s first independent think tank, free of personal interests and partisan influences. For more information, visit www.ideas.org.my.

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