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YOUR LOANS

Housing Loans

A consumer education programme by:

BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

PERSATUAN BANK BANK DALAM MALAYSIA
THE ASSOCIATION OF BANKS IN MALAYSIA

contents

Buying well means lots of **planning, research and patience**

Introduction

Buying a house is an exciting event. It will probably be the biggest purchase you will ever make in your life. Understanding the steps involved in securing a housing loan will help you save time and avoid uncertainty and anxiety.

This booklet gives you an insight into the various issues on financing a house and outlines the major steps in the overall process of financing a house. It guides you through the basics, explains the technical terms and gives you invaluable tips on financing a house.

Buying a house is the single **biggest purchase** you will make in your life

BUYING A HOUSE

Buying a house is a major step, so it deserves careful thought and planning.

If you are buying a property under construction, you should check the background of the developer. You should ensure that the developer:

- Has a valid licence issued by the Ministry of Housing and Local Government which is still in force (not expired)
- Has a valid advertising and selling permit issued by respective local authority which is still in force

You have the right to enquire from the developer, information on licence and permit. You can also refer to the Ministry of Housing and Local Government for further clarification. A developer with a good track record reduces the risk of the project being abandoned.

WHAT CAN I AFFORD

Before you commit to purchase a property, you should first work out a budget to help you determine how much you can afford and the ceiling price on any property you may wish to buy. As a guide, your monthly commitments on paying instalments for your house, car and other payments should not exceed 1/3 of your gross monthly household income.

Your source of funding can be all or any combination of the following:

i. Savings

ii. Withdrawal from Employee Provident Fund (EPF) account

iii. Loan facility from a financial institution

SAVINGS

You should have sufficient personal savings to pay for the downpayment and other related costs associated with buying a house. A good estimate would be about 10%-20% of the purchase price as down-payment and another 3%-5% for related costs, such as legal fees and stamp duties.

EPF SAVINGS

You could also withdraw from your Account 2 to make the initial downpayment. Please contact your nearest EPF office to inquire about your withdrawal eligibility.

CHOOSING YOUR FINANCIAL INSTITUTION

You should shop around before you decide on any financial institution. Remember that when you take up a housing loan, you will be dealing with the financial institution on a regular basis for a period of time. Therefore, you should also consider factors other than just lower interest rates. Below are some of the factors you should consider:

- How professional is the financial institution in dealing with customers?
- Does it offer quality service in terms of efficiency and reliability?
- What are the available loan packages and which package suits you best?
- What are the charges involved?
  For example, legal fees, related government fees and charges, disbursement fees and others. You should also be informed when and how often these charges are to be paid

An innovative financial institution may offer a more suitable loan package that suits your needs and their application process may be faster and hassle-free. It usually takes about one to two weeks for your loan application to be approved from the time you submit all relevant documentation.

Some financial institutions may require **additional** supporting documents

LOAN APPLICATIONS: DOCUMENTS REQUIRED

You need to provide the following basic documents before the financial institution can process your loan application:

- A photocopy of identity card or passport
- Your latest 3 months' salary slip
- Your latest income tax return form (form J) or EA form
- Sale and Purchase Agreement/deposit or booking receipt/letter of offer from the housing developer
- A photocopy of the land title (if any)
- The latest bank statements (compulsory in the absence of salary slips and/or Form J/EA Form) dating back six months/savings passbook/fixed deposits
- Valuation report for completed houses and/or

- If you are self-employed, you need to provide your business registration documents, latest 3 months bank statements, latest financial statements and other supporting documents to support your income

However, some financial institutions may require additional supporting documents.

Upon acceptance of the letter of offer, you will need to appoint a lawyer to draw up the loan documentation for you. Normally, you would select your lawyer from a list of panel lawyers provided by your financial institution. Some of these documents need to be submitted to the relevant government authorities for registration and to the Stamp Office for stamping.

Upon completion of the above, these registered documents are then submitted to the financial institution and you will be given a copy of the Loan Agreement. In general, the timeframe for the completion of this legal process should not exceed 6 months.

FEES AND CHARGES

There are also related costs such as professional fees and government charges that you would have to pay. Below are some of the common fees and charges you would expect to incur:

Type	Rate	
Stamp Duties		
• Sale & Purchase Agreement	1.0% for the 1st RM100,000 0.5% for the next RM4,900,000	
• Loan Agreement	0.5% of the loan amount or RM5 per RM1,000	
• Transfer of Title (for completed properties only)	1% for the first RM100,000 2% for the next RM400,000	
Disbursement Fees Include fees for registration of charge, land search and bankruptcy search	These fees vary by state, land office and type of property. For instance, in Selangor and Wilayah Persekutuan, the fees could range from RM300 to RM700.	
Processing Fees	**Rate (RM)**	**Range (RM)**
One time fee charged by the financial institution for loan processing	50	up to 30,000
	100	30,001 – 100,000
	200	100,000 above

Please note that the type of charges and the amount charged might change in the future. You should meet with your financial institution's loan officer for further advice and discussion regarding any questions that you may have concerning the type of fees and legal services.

ASSESING YOUR LOAN REPAYMENT CAPACITY

Different financial institutions have **different criteria** in calculating the repayment capacity

A common criterion is that your monthly loan instalment repayment should not be more than 1/3 of your gross monthly household income. If you have savings or fixed deposits, they can be used to support your loan application as financial institutions may take them into account in evaluating your eligibility. Different financial institutions have different criteria in calculating the repayment capacity. In the case of a floating rate loan, you should also note that your monthly repayment may increase substantially when interest rates go up.

For example, when there is an increase in the Base Lending Rate (BLR), the interest rate on your loan will also go up, and your repayment would be higher. However, in most cases, financial institutions would allow you to pay the fixed amount of monthly repayment throughout the loan tenure and would make any adjustment

caused by the variation in interest rate by increasing or shortening the loan tenure. You should check this out with your financial institution.

MARGIN OF FINANCING

The amount of financing provided by a financial institution depends on the market value (for completed properties only) or purchase price of the house, whichever is lower. The margin of financing could go as high as 95% of the value of the house. It is assessed on factors such as:

- Type of property
- Location of property
- Age of the borrower
- Income of the borrower

LOAN TENURE

The length of a loan can range anytime up to 30 years or until the borrower reaches age 65 (or any other age as determined by the financial institution), whichever is earlier.

LOAN FEATURES

Each financial institution packages its housing loans differently. You should examine all the features of a loan package and not just base your decision on any single feature. Pricing is just one consideration; other features like flexible repayment terms could balance the scale or even translate into greater loan savings. Financial institutions generally offer housing loan packages either in the form of a term loan, overdraft, or a combination of a term loan and overdraft.

COMMON HOUSING LOAN PACKAGES OFFERED BY FINANCIAL INSTITUTIONS

- Term Loan
  - A facility with regular predetermined monthly instalments. Instalment is fixed for period of time, say 30 years
  - Instalment payment consists of the loan amount plus the interest

Each financial institutions packages its housing loans **differently**

- Overdraft facility
  - A facility with credit line granted based on predetermined limit
  - No fixed monthly instalments as the interest is calculated based on daily outstanding balance
  - Allows flexibility to repay the loan anytime and freedom to re-use the money
  - Interest charged is generally higher than the term loan

- Term loan and overdraft combined
  - A facility that combines Term Loan and Overdraft. For example, 70% as term loan and 30% as Overdraft
  - Regular loan instalment on the term loan portion is required
  - Flexibility on the repayment of overdraft portion

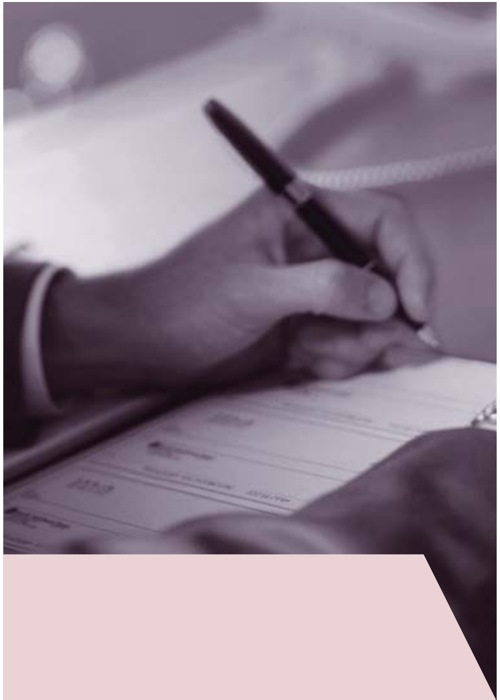
DAILY RESTS VS MONTHLY RESTS

Financial institutions may charge you interest either on daily rests or monthly rests depending upon the products offered. In the case of daily rests, the loan interest is calculated on a daily basis, while in the case of monthly rests, interest is calculated once a month based on the previous month's balance. Under both types of loan, the principal sum immediately reduces every time a loan instalment is made.

GRADUATED PAYMENT SCHEME

A graduated payment scheme allows lower instalment payments at the beginning of the loan but this will gradually increase over time. This type of payment scheme will help house buyers to reduce burden of loan repayment for the first few years and allow them to allocate more money for other purposes. Over time, as earnings of house buyers increase, their repayment capabilities will also increase thus allowing higher repayment instalments at a later stage.

A Loan Agreement is a **contract** signed between the buyer and the financial institution



A graduated payment scheme is also suitable for a house buyer who wishes to purchase a more expensive house but is restricted by his/her repayment capability during the initial years.

PREPAYMENT FLEXIBILITY

Different financial institutions may have different terms and conditions imposed on prepayments. Check the loan package to see if it allows you the flexibility to make prepayments or extra payments. Flexibility to make prepayments and paying interest on a daily rest basis, may help save considerable interest charges. It is also possible to start repayment of the loan during the construction of the house, thus saving more interest charges. What is important is to make prompt monthly repayments.

PARTIAL PREPAYMENT OF THE OUTSTANDING LOAN

Many borrowers find it useful to shorten the loan tenure by making partial prepayments with surplus savings or annual bonus. Partial prepayments can be in any amount. However, some financial institutions may impose restrictions on the amount to be pre-paid while others may impose a penalty. It is extremely effective in reducing the interest charges you would have to pay if prepayments are made during the early years.

EARLY TERMINATION PENALTY

Financial institutions may impose a penalty on full repayment of loan. Generally, the penalty imposed can either be a flat rate or an 'x' number of months' of interest (e.g. 1 month's interest). This is because when a loan is granted for a certain term, the financial institution would expect the loan to be repaid over the period agreed and has planned their cash flow on this basis. An early termination of the loan would therefore disrupt the financial institution's cash flow planning. As such, some financial institutions do not charge a penalty if sufficient notice is given (as stated in the terms and conditions of the loan) or if the settlement is made after the required minimum period to maintain the loan with the financial institution has passed.

DOCUMENTATION

The primary documentation involved in applying for a housing loan is the loan agreement.

A Loan Agreement is a contract signed between the buyer and the financial institution. A Loan Agreement contains major provisions such as the terms of the loan, principal sum of the loan, interest rates, default interest rate, penalty charges and repayment terms. It also sets out the duties of borrower and the lender and in the event of default, the rights and remedies of each party.

It is extremely important to think of **insurance coverage**

The other common legal documents that you may need to sign are Deed of Assignments, Charge documents and Power of Attorney.

Remember that throughout the tenure of the loan, your property is charged to the financial institution (ie. the financial institution has a claim over your property). Whether you are buying a completed property or a property under construction, you should obtain an explanation from the attending lawyer on the major clauses of the agreement and the implications of each clause.

VALUATION REPORT

This documentation may be required if you purchase a fully completed property from a houseowner. The financial institution will appoint a property valuer from its panel of valuers to appraise the property. The valuation fee for this service starts from a few hundred ringgit upwards, depending on the value of the property and you will be charged for this service.

INSURANCE

It is extremely important to take insurance coverage when you purchase a house. The most important factor is that it gives you and your loved ones peace of mind, in the form of financial security if an unfortunate event should occur.

There are two important insurances to consider:

- The House Owner/Fire Insurance policy

This policy provides coverage for your property against natural disasters such as flood, fire, riot, strike and malicious damage. For properties with strata titles such as apartments or condominiums, you need not buy the insurance because the Management Corporation (MC) would have taken up insurance on the entire building. You should ensure that you obtain the sub-certificate of the Master Policy issued by the insurance company from the MC and present it to the financial institution. This is necessary so that the financial institution is aware that the property has been insured and will not buy another fire insurance on your property. In such a case, you will be required to assign your rights under the policy to the financial institution.

- The Mortgage Life Assurance or MRTA

  This type of policy provides for full settlement of the outstanding balance of the housing loan with the financial institution, in the event of total permanent disability or death of the borrower. Premiums can usually be included in the loan amount, and the repayment period of the premium is usually spread over the loan tenure. The premium is only incurred once. There are no monthly or yearly premiums to be paid. In the event of early termination of housing loan, you will generally have the option to request for a refund of the premium for the balance of the unexpired period or to continue the insurance coverage.

Financial institutions have their own panel of insurers and most of them can arrange insurance on your behalf with the annual premium charged to your loan account.

LOAN DISBURSEMENT

The financial institution disburses (pays out) the loan once it has received advice from its lawyer that the legal process has been completed and the loan documents are in order. At this time you will be informed of the date and amount of the first instalment you have to make.

RIGHTS AND DUTIES OF THE BORROWER AND FINANCIAL INSTITUTION

Both borrower and financial institution have certain rights and duties during the course of the loan. Some of the more important ones include:

RIGHTS

- Borrower
  - Right to have access to all information that would affect your borrowing decision
  - Right to be treated professionally, courteously and without prejudice
  - Right to be consulted on changes to the terms and conditions of your loan
  - Right to have accurate information on a regular basis on your loan account
  - Right to enforce legal action in the event of a breach of contract
- Financial Institution
  - Right to have full relevant disclosure of information on borrower's credit standing

Financial institutions have the right to **correct and truthful** information on their borrower

– Right to correct and truthful information on the borrower

– Right to timely repayment of interest/ instalments of the loan

– Right to enforce legal action in the event of default/breach of contract

DUTIES

- Borrower
  – Duty to read and understand all terms and conditions of the loan

  – Duty to observe the terms and conditions of the loan at all times

  – Duty to enquire and get clarification on all aspects of the loan to their satisfaction

  – Duty to make prompt payment on the fees, charges, interest and instalment of the loan

- Financial Institution
  – Duty to discharge borrowers' obligations as described in the loan agreement

  – Duty to consult borrowers on any changes made to the terms and condition, fees charged and other relevant information

  – Duty to attend to all queries made by borrower

A Loan Officer can provide invaluable assistance, and clarify issues which you are unsure. Take the time to discuss your housing loan questions with a loan officer at length so that you can choose a loan facility that best suits your needs.

How much can I afford?

This depends on your income and other financial obligations. As a rule of thumb, most house buyers buy houses that cost 1.5 and 2.5 times their annual income. For example a house buyer earning RM40,000 a year would buy a house between RM60,000 and RM100,000. Furthermore, the monthly loan repayment should not exceed about 1/3 of your gross monthly income. In assessing your repayment capability, the financial institution would also take into account your other debt repayments such as car loan, personal loan and credit cards.

How much can I borrow?

This will depend on the value of your property, your income and your repayment capability. Margin of financing can go as high as 95% (inclusive of MRTA). The higher the margin, the higher you will have to pay per instalment. Also, at a given rate, a shorter tenure will require you to pay higher instalment.

How long does it take to process a loan?

It usually takes about one to two weeks for your loan application to be approved from the time you supply full documentation. You should ask the financial institution for the checklist of documents required for the application to avoid any delay.

What is the difference between conventional financing and Islamic financing?

Under conventional financing, your outstanding loan consists of principal plus the interest charged on you. The interest is actually the financial institution's cost in obtaining the funds. Islamic financing works on the concept of buying and selling where the financial institution purchases the property and subsequently sells it to you above the purchase price.

Why do I need a valuation?

A valuation is required if you are buying a completed property. The financial institution requires a valuation to ascertain whether the property provides sufficient security for the loan given. It also provides an indication that the property is worth what you are paying for.

Do I need to appoint a lawyer? Can I choose my own lawyer?

Yes. You need to appoint a lawyer to draw up your loan documentation. Normally, the financial institution will provide a panel of lawyers who are familiar with their documentation requirements for you to choose from. If you prefer to engage your own lawyer, you should discuss this with your financial institution.

Who pays for the legal fees?

Generally, legal fees are borne by the buyer. However, certain developers and financial institutions may offer to pay the legal fees on the legal documentation as part of their marketing package. In addition, some financial institutions also extend financing for the loan documentation fees.

What if I run into financial difficulties and cannot meet my loan repayments?

If this happens, you should contact your financial institution to discuss a reasonable repayment program, which could include extending the tenure of the loan.

Can I pay off my loan in full earlier than the agreed loan tenure?

Normally there will be penalty charges for early loan settlement. Depending on the financial institution, penalty charges will range between 2-5% of the outstanding amount. The charges that are made will depend on the type of product you have chosen and when you decide to redeem your loan. Note that in some loan packages, there are certain minimum periods you need to observe before full settlement is allowed.

Is there any waiver of penalty fees for early loan settlement?

Any waiver of penalty fee is strictly at the discretion of the financial institution.

Why does my outstanding loan remain high at the initial stage despite the repayments made?

During the early years of the loan, a significant amount of your repayments will go towards the payment of interest. So if you make partial repayments to repay the principal sum outstanding, you make substantial savings in your interest payments and thus shorten your loan tenure.

Can I make extra payments other than the monthly contractual repayments?	This depends on the terms and conditions stated in your loan agreement. By paying in extra money each month or making an extra payment at the end of the year, you can speed up the process of paying off the loan. When you pay extra money, be sure to indicate that the excess payment is to be applied to the principal. However, if you make a lump sum payment or partial repayments to your principal loan, you must give notice to your financial institution. The notice period ranges from 1 to 3 months.
Do I need a guarantor for a loan facility?	This is at the financial institution's discretion and depends on the credit standing of the borrower.
Does the financial institution have the right to charge my loan account for any miscellaneous charges incurred by them such as late payment charges, legal costs, insurance, etc?	The financial institution's power to impose charges on your account is normally indicated in the Terms and Conditions of the loan.
How long is the grace period for payment of my monthly instalment/interest?	Generally, the financial institution gives a grace period of 7-14 days for you to repay your instalment payment. Any payment received after the grace period will be subjected to late payment charges.
When does the financial institution release the loan to the seller/developer?	For houses under construction, the financial institution will release the progressive payment to the developer based on the claim made upon completion of each construction stage as certified by the Architect's Certificate. For completed properties, the loan will be released upon completion of legal documentation or when all relevant approvals, such as the approval of the state government have been obtained.

Can I purchase a house under joint names and apply for the housing loan only under my name?

The financial institution will consider such applications on the merits of each case, under the following circumstances:

- The co-owners are related as husband and wife, and one party is not working and the other party is solely responsible for the loan
- The co-owners are related as father/mother and children, the parents are old and not working and the children will be responsible for the loan

However, the above is at the financial institution's discretion and they may also consider other circumstances.

If the developer abandons the project, am I still required to service my interest/instalment payments?

Yes. You are still obliged to service your loan based on the loan agreement signed between you and the financial institution. However, since the financial institution has vested interest in the property, you could discuss a repayment plan with your financial institution. You should also report the matter to the Ministry of Housing & Local Government.

What happens when the loan is fully repaid?

When the loan is fully settled, the financial institution through its solicitors, will release its charge on the property. The financial institution (chargor) will uplift his claim on the property and the title to the property will be transferred to you.

What happens in the event of death of a borrower who has not bought insurance?

The deceased's survivor/next of kin can claim through the court the rights of the deceased's property. The person will have an option to either proceed to service the loan or redeem it. However, most financial institutions make it compulsory to insure (MRTA) against such an event.

What can the financial institution do if I do not make repayments?

If you fail to make three consecutive payments, the financial institution will take the necessary actions to recall the loan. In the worst case scenario, the financial institution will foreclose the property and sell it to settle the loan. The borrower would still be liable to pay the difference between the auction price and the loan amount outstanding.

What is the most convenient way to repay my loan?

Financial institutions offer a wide range of services to make banking easier for you. Some of the alternative ways of servicing a loan include:

- Open a savings/current account and arrange for standing instructions with minimal charges (if you maintain deposit and loan accounts with the same bank, the charges may be waived)
- Through an ATM transfer
- Internet Banking
- Telephone banking service
- Deposit your cheque at the deposit machine or send your cheques direct to your financial institution

Should I consider refinancing my loan if I am offered a lower interest rate?

The main consideration in refinancing would be the costs involved. As you are clearly aware, you have incurred a substantial amount to pay for the necessary fees to obtain your first loan. For example, processing fees, legal fees, stamping and transfer fees. Refinancing means you would have to incur the same charges again. Before you decide to refinance, you should ensure that the savings from the lower interest rate is enough to compensate all the costs incurred associated with refinancing, including penalty charges, if any.

GLOSSARY

Acceptance Letter
A letter from the applicant indicating his willingness to accept the loan after the loan is approved by the banking institution.

Application Form
A form used to apply for loan.

Appraisal/valuation report
A written analysis of the estimated value of real estate prepared by a licensed Valuer/Appraiser.

Base Lending Rate (BLR)
A minimum interest rate calculated by financial institutions based on a formula which takes into account the institutions' cost of funds and other administrative costs.

Commitment Fee
A fee charged by the financial institution for setting aside funding that are not utilised by the borrower. Usually only applicable to overdraft facility.

Default
Failure to pay the monthly instalment/interest payments to financial institutions when due.

Disbursement Fees
Various type of fees such as registration of charge fee, land search fee, bankruptcy search fee incurred by financial institutions and solicitors attending to the loan documentation in relation to the loan which are payable by the borrower.

Documentation
A set of agreements, forms, and other documents to be signed in connection with a loan. The documentation will form a full set of records for the loan.

Downpayment
An initial payment made by the buyer to the seller of the house.

Financial Institutions
All commercial banks and finance companies licensed under BAFIA 1989 and Islamic banks licensed under the Islamic Banking Act 1983.

Flat Rate
A term used to describe interest that is charged as a fixed percentage of the loan amount throughout the tenure of the loan. The flat repayment amount is usually determined before the commencement of the repayment programme. For example, interest charged on a RM10,000 loan at a flat rate of 10% per annum is RM1,000 annually until the loan is fully settled.

Floating Rate Loan
A term used to describe a loan, where the interest charged fluctuates due to the rise and fall of a certain indicator such as the Base Lending Rate.

Foreclosure
Legal action available to the financial institution for recovering outstanding sums owed by a borrower who has defaulted on his/her loan. The property pledged by the borrower to secure the loan is sold and the proceeds of the sale used to settle the outstanding loan amount.

Graduated Payment
A scheme that allows the borrower the flexibility to pay a lower instalment sum at the beginning of the loan tenure before progressing onto a higher instalment sum as the borrower's purchasing power improves.

Gross Monthly Household Income
The sum of gross monthly pay of all working family members before deducting income tax, Sosco, EPF, loan instalment or other deductions plus any additional income from overtime, commissions and other sources.

Guarantor
Person or entity who is legally bound to pay a debt incurred by the borrower if that borrower fails to pay.

Homeowners Insurance
An insurance policy that combines liability coverage for a homeowner together with protection from damages caused by wind, fire, vandalism and other risks.

Interest Rate
The amount charged by the lender to the borrower for borrowing a sum of money expressed as percentage of sum borrowed.

Late Charge
A penalty charged by financial institution for not paying instalment due on time.

Letter of Administration
A Grant of representation issued by the High Court to a person to allow him to administer the estate of the deceased who died without a will.

Loan Tenure
Number of years taken to fully repay the loan principal and interest as agreed under a specific repayment programme.

Margin of Financing
The loan amount granted by the financial institution, expressed as a percentage of the value of property pledged to secure the loan.

Mortgage Reducing Term Assurance (MRTA)
A term insurance which reduces over the tenure of the loan. This form of insurance is used to provide cover for the outstanding loan amount, in the event of death or total permanent disability of the insured. MRTA is normally calculated to meet the outstanding loan amount.

Outstanding Loan
Remaining loan not yet paid, including interest and other charges.

Overdraft
A type of credit facility granted to the eligible current account holder. The borrower is allowed to issue cheques exceeding the credit balance in the current account but subject to a certain pre-approved limit granted by the financial institution.

Power of Attorney
A formal legal document giving authority to one person to act on behalf of another person.

Prepayment
Payment of all or part of a loan before maturity.

Prepayment Penalty
A fee charged by financial institutions for early payment of loan in full. The fee charged is usually based on a percentage of the loan amount or "X" months of interest.

Principal
The amount borrowed from financial institutions, excluding interest and other charges.

Property
Refers to landed properties (like house, apartment, condominium) and land (like bungalow lots).

Refinancing
The process of paying off a portion or the entire amount of the existing loan with the intention of obtaining another loan from the same or another financial institution.

Sale and Purchase Agreement
A written contract signed between the buyer and seller stating amongst others, the terms and conditions under which a property will be sold.

Security
Real or personal property that guarantees the repayment of a loan. The borrower risks losing the property if the loan is not repaid.

Term Loan
A loan which is repaid through regular periodic payments, usually over a period of time, for example 10 years.

Title
A legal document establishing the right of ownership on a property.

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First Edition