Title

Circular on Measures to Ensure Sustainability in the Residential Property Market

Effective Date

- Paragraph 5.1: 3 November 2010
- Paragraph 5.2: 9 December 2011

Applicability

Commercial Banks, Investment Banks, Islamic Banking Institutions, Life Insurers, Takaful Operators and Development Financial Institutions.

Summary

The circular maintains a maximum loan-to-value ratio for third outstanding housing loan account and above for individuals, and introduces a maximum loan-to-value ratio for all housing loans by non-individuals. The circular is aimed at ensuring a stable domestic property market, and promote the continued affordability of homes for the general public in line with the objective of encouraging home ownership in Malaysia. The circular further aims to promote financial prudence and reinforce responsible lending practices that will support a healthy and sustainable property market.

Issuing Department

Financial Surveillance Department

Guideline Info

1. Introduction

1.1. A stable and sustainable property market is important for the soundness of financial institutions and the stability of the financial system and the broader economy. Financing for the purchase of residential property is currently the largest component of household debts, where investment in residential property forms a considerable proportion of household wealth. Stability in house prices relative to growth in household income levels is therefore vital to sustain household consumption. The financial system also has significant exposures to the residential property market through end-financing and financing to the real estate and construction sectors. Therefore, adverse developments in the domestic property market would have implications on collateral value and asset quality of financial institutions.

1.2. The circular is aimed at ensuring a stable domestic property market, and promote the continued affordability of homes for the general public in line with the objective of encouraging home ownership in Malaysia. The circular further aims to promote financial prudence and reinforce responsible lending practices that will support a healthy and sustainable property market.

2. Applicability

2.1. This circular is applicable to all financial institutions licensed under the Banking and Financial Institutions Act 1989 (BAFIA), the Islamic Banking Act 1983 (IBA), the Insurance Act 1996 (IA) and the Takaful Act 1984 (TA), as well as development financial institutions prescribed under the Development Financial Institutions Act 2002 (DFIA).

3. Effective Date

3.1. This circular shall take effect as follows:

Prudential Limit	Paragraph	Effective Date
Maximum loan-to-value ratio for individuals	5.1	3 November 2010
Maximum loan-to-value ratio for non-individuals	5.2	9 December 2011

4. Legal Provision

4.1. This circular is issued pursuant to section 126 of the BAFIA, section 53A of the IBA, section 201 of the IA, section 69 of the TA and section 126 of the DFIA.

5. Prudential Limits and Controls

Maximum Loan-to-Value (LTV) Ratio

5.1. New housing loans[1] extended by financial institutions[2] to **individuals[3]** that already hold two (2) outstanding housing loan accounts will be subject to a **maximum LTV ratio of 70%**.

i. The maximum LTV limit is applicable to all new housing loans approved by financial institutions beginning from the effective date as stipulated in Paragraph 3.1.

ii. Financial institutions are required to verify the number of existing housing loan accounts held by a particular borrower with any financial institution through the Central Credit Reference Information System. In addition,

[1] Refer to loans extended for the purchase of residential property, including those financed under the Islamic finance scheme. Residential property means property that is zoned for single-family homes, multi-family apartments, townhouses and condominiums.

[2] Include development financial institutions.

[3] **Exclude** sole proprietorships which are classifiable as domestic business enterprises.

financial institutions should also verify the number of outstanding housing loans through other appropriate methods, on a best efforts basis.

iii. For joint account housing loans, each joint account holder shall be deemed to have one account. For example, in the case of a joint housing loan account that is held by two borrowers, each borrower will be deemed to have one (1) outstanding housing loan account. The same principles apply if the borrower has other joint housing loan accounts with other borrowers.

iv. For a borrower who already has three (3) housing loans to his/her name, financial institutions should establish internal policies and procedures to determine the appropriate LTV limit (subject to the maximum of 70%) for subsequent additional housing loan(s) in order to adequately reflect the higher corresponding risks, taking into account the borrower's individual risk profile.

5.2. New housing loans, including any credit facility, extended by financial institutions to **all non-individuals**[4] for the purchase of residential properties, are subject to a **maximum LTV ratio of 60%**.

i. The maximum LTV limit will be applicable to all new housing loans approved by financial institutions beginning from the effective date as stipulated in Paragraph 3.1.

ii. This limit shall apply irrespective of the number of housing loan accounts already held by non-individuals.

5.3. In determining the LTV ratio of new housing loan applications for **both individuals and non-individuals**, financial institutions should take into account the following:

i. In respect of housing loans to individuals, financing of premiums for corresponding Mortgage Reducing Term Assurance/Takaful

[4] Refer to any business enterprise principally engaged in activities on a commercial basis, where the business enterprise is established in the form of a sole proprietorship, partnership or a company incorporated in Malaysia or any other jurisdiction.

(MRTA/MRTT) may be excluded from the computation. This applies strictly to financing of MRTA/MRTT only. Financing of other pecuniary costs such as legal fees, valuation fees, stamp duty and administrative costs should be included in the total amount of financing for the computation of the LTV ratio.

ii. The property value used should be net of any form of price discounts, adjustments or rebates from developers.

iii. Financial institutions should have in place sound policies and robust procedures to ensure that the valuation of the property, whether conducted internally or externally, is reasonable. In doing so, financial institutions should ensure the following:

- Internal databases and systems are able to facilitate robust assessments and capture the required information for valuation of the property, such as values stipulated in the Sales and Purchase Agreement, any credible secondary information[5], or independent valuations; and
- Where internal valuations are used, such valuations should be periodically checked against credible independent sources.

iv. In the case of a borrower who has an outstanding housing loan but the financed property was not completed due to abandonment[6] of its construction and development by the property developer, financial institutions have the discretion to exclude the housing loan from the application of maximum LTV ratio specified under paragraphs 5.1 and 5.2.

5.4. The requirements above shall be observed alongside continuing expectations for financial institutions to ensure that credit underwriting criteria for housing loans, credit approval procedures and corresponding internal governance and controls

[5] For example, property market reports, valuation reports, and databases on property prices, sales and transactions, supply and stock, etc.

[6] As defined by the Kementerian Perumahan dan Kerajaan Tempatan (Projek Lewat, Projek Sakit dan Projek Terbengkalai).

remain sound and effective in managing risk exposures in the residential property sector.

i. This should include sound practices in responsible financing[7] which are sufficiently rigorous to check and ensure that financing facilities are within the repayment capacity of borrowers.

ii. There should be robust internal governance and control functions (including compliance and internal audit), systems and procedures to prevent circumvention of LTV requirements and to ensure ethical dealings with property developers.

[7] Refer to Guidelines on Responsible Financing.