

Housing Finance and the Malaysian Economy

by Dr Awang Adek Hussin

INTRODUCTION

The housing industry plays a crucial role in the socio-economic development of any young developing nation such as Malaysia. The health of the housing industry has a significant bearing on the economic growth of the nation through the multiplier effects arising from the demand for construction equipment, building materials and construction-related services as well as employment creation. The housing industry also contributes towards the achievement of the national objective of creating a harmonious house-owning democracy. Recognising the importance of its roles, the Government has accorded priority to the housing sector in all its 5 year national economic development plans thus far, with particular emphasis on the construction of affordable houses for the lower income group.

Under the Sixth Malaysia Plan, the Government has established a major housing programme to construct 573,000 units of houses by both the public sector (174,000 units) and private sector (399,000 units). The bulk of the target is for low-cost houses, costing RM25,000 and below, as is shown in Table 1.

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Clearly, a national housing programme to promote house-ownership would not be successful without adequate financing. Housing finance in this context refers not only to end-financing for the purchase of houses, but also the availability of bridging finance for developers to build houses for sale. Part B of this paper will focus on the contribution of the housing industry to the Malaysian economy, while Part C will highlight the major sources of housing finance in the country. Finally, Part D will discuss the various measures undertaken to enhance the effectiveness of housing finance in Malaysia.

CONTRIBUTION OF THE HOUSING INDUSTRY TO THE ECONOMY

The housing industry contributes directly to the progress and performance of the construction sector. During the prolonged economic recession in the mid-80s, the decline in demand for houses due to the sharp contraction of income, both nominal and real, had led to a sluggish performance in the construction sector. In 1986 for example, the construction sector experienced a significant decline of over 9% in value added. The slump in activities was evident in all areas of construction. This contrasted sharply with the present

scenario whereby the construction sector along with the manufacturing sector are the high growth areas, sustaining a rapid GDP growth rate of over 8% for the past 5 years.

In 1993, residential construction activity registered strong growth reflecting an increased demand for houses arising from the wealth effects of the booming stock market in 1993 as well as lower interest rates for housing loans. More importantly, the growing employment opportunities generated by the buoyant domestic economy over the past several years had contributed to a higher level of disposable income and a growing middle class in urban centres. All these factors had combined to create a growing population with the required means and appetite for residential houses.

At the same time, the spin-off effects from the development of infrastructure projects had further contributed to the enhancement of demand and potential of capital

Table 1 : Government Housing in the Sixth Malaysia Plan

	Number of Units	%
Low-cost houses (RM25,000 and below)	343,800	60
Medium-cost houses (between RM25,000 and RM100,000)	200,500	35
High-cost houses (above RM100,000)	28,700	5
Total	573,000	100

appreciation of residential units. The implementation of the North-South Highway and the New Klang Valley Expressway had also improved the accessibility of the suburban areas and resulted in further development of new housing townships.

Reflecting the buoyancy of the residential sector, loans extended for residential housing by the various housing credit institutions recorded a significant growth of 13.6% in 1993 (14.2% in 1992). A survey of construction starts by the Central Bank covering 13 major towns in Peninsular Malaysia (namely Kuala Lumpur, Seberang Prai, Klang, Shah Alam, Johor Bahru, Melaka, Seremban, Ipoh, Pulau Pinang, Alor Setar, Kuantan, Kuala Terengganu and Kota Bharu) showed that housing starts increased by 15% during 1993 (1992: 1.4%)

In 1993 alone, the Ministry of Housing and Local Government had granted approval to private developers to construct nearly 77,000 units of houses. Of the total number of houses approved for construction during the year, 21% were for low-cost units, 45% for medium-cost units and 34% for higher-priced units. Over 350,000 units of residential houses were completed during the period 1991-93, representing more than 60% of the total number of 573,000 housing units targeted for completion under the Sixth Malaysia Plan, 1991-95.

Reflecting the sustained demand in the property market, the total value of property transactions in 1993 rose by 10.1% to RM23.6 billion (1992: RM21.5 billion), while the total volume of transactions rose by 4.6% to 199,817 transactions (1992: 190,939 transactions). Residential properties continued to account for the bulk of the total volume of property transactions (65.5%). The increase in transactions in the property market was attributable to a combination of factors, such as a higher level of disposable income, wealth effects of the booming stock market as well as the relaxation of Foreign Investment Committee's (FIC) rulings that govern the acquisition of properties by foreigners.

In line with the sustained buoyancy in the housing industry, the production of building materials increased significantly in 1993. The production of iron, steel bars and rods increased by 20.7%, ceramic tiles by 19.7%, ready-mix concrete by 18.9%, plywood by 49.9% and timber mouldings by 30.1%. However, the output of cement rose by only 5.3%. To ensure a steady supply, the Government had banned the export of cement, effective January 14, 1993. In anticipation of a further increase in demand for cement, the ban on the import of cement was lifted effective February 1993 and the decision of the Government to waive the 50% import duty on cement with effect from October 22, 1992 is still in force.

Since 1989, the construction sector as a whole, which covers residential construction activity as well as construction of commercial buildings and civil engineering construction activity, had expanded rapidly at double-digit growth rates. In 1993, it continued to register strong growth for the fifth consecutive year, with value added in the sector rising by 11.5% (11.2% in 1992). Contribution of the construction sector to GDP at 1978 prices had increased from 3.31% in 1989 to 3.96% in 1993. Reflecting the significance of construction activities in the economy, the total value of loans extended by the banking system to the broad property sector (comprising construction, real estate and housing) amounted to RM54 billion or 30% of total loans of the banking system at end-1993 (1992: RM48 billion or 31%). Of the total loans granted to the property sector, RM3.1 billion (1992: RM2.8 billion) was for the construction of residential houses and RM24.3 billion (1992: RM21 billion) was for end-financing of houses. The construction sector is also a major source of employment in the economy. Reflecting the strong expansion in construction activity in 1993, employment in the construction sector grew by a further 4.4% to 502,000 persons (1992: 5.6% to 481,000 persons) to account for 6.9% of total national employment (1992: 6.8%).

HOUSING FINANCE IN MALAYSIA

Two key issues confronting most house buyers, except for the very rich, are the affordability of houses and the availability of housing finance. Generally, the purchase of houses could be financed by three main sources, which are the buyers' voluntary savings, withdrawals from the "forced" savings in the Employees Provident Fund and borrowings from housing credit institutions. In Malaysia, both the private and public sectors play an important role in providing housing finance to house buyers. This is evident by the outstanding amount of housing loans granted by the various Government-funded housing credit institutions (comprising the Treasury Housing Loans Division, the Malaysia Building Society Berhad, the Borneo Housing Mortgage Finance Berhad, Sabah Credit Corporation, Bank Rakyat and the National Savings Bank) which totaled RM16 billion (44% of total housing credit) at the end of 1993, compared with RM21 billion (56% of total housing credit) extended by the private housing credit institutions (comprising the commercial banks and finance companies).

In 1993, the outstanding amount of housing credit rose sharply by 14%, while the amount of housing credit approved during the year totaled RM8,335 million, up 9% from the RM7,660 million worth of loans approved in 1992. While the public sector remains an important source of housing credit, the rate of growth in recent years was much slower compared with the growth of credit extended by the private housing credit institutions. For 1993, the outstanding amount of housing credit and the amount of housing loans approved during the year by the private housing credit institutions expanded by 17% and 11% respectively, compared with 10% and 1% respectively, registered by the Government-funded housing credit institutions. This trend is indeed encouraging and reflects the growing ability of the private banking institutions in meeting the financing needs of house buyers.

Government Funded Housing Credit Institutions

Treasury Housing Loans Division

Previously, all civil servants were entitled to rent a government quarter at a nominal rate or a housing allowance in lieu of the first privilege. The maintenance of the Government quarters was a heavy financial burden since the nominal rent collected was insufficient to cover the cost of maintenance. Similarly, housing allowance paid to Government employees also constituted a heavy financial drain on the public sector.

A better alternative would be to provide the Government employees with loans to purchase their own home. As a result, the Treasury Housing Loans Division was established in 1971 with an initial fund of RM20 million to provide housing loans to eligible Government servants.

Since then, the Treasury Housing Loans Division had emerged as one of the largest sources of housing credit in the economy. Indeed, the Division was the second largest source of housing credit after the commercial banks. Total loans outstanding with the Division continue to rise, increasing by 8.7% to RM15,252 million at end-1993 to account for 36% of the total housing credit (37% at end-1992). The total value of housing loans approved by the Division during the year, however, declined marginally by 0.5% to RM1,313 million in 1993 (-22.8% to RM1,320 million in 1992), while the amount of loans disbursed during 1993 fell by 9.9% to RM1,285 million (-16.6% to RM1,416 million in 1992). The bulk of the loan disbursements was financed by loan repayments, long-term low interest loan by the Federal Government, Cagamas, the Employees Provident Fund and loan from a consortium of banks. Currently, the interest rate charged on housing loans granted to all categories of civil servants is fixed at 4% per annum.

Malaysia Building Society Berhad (MBSB)

MBSB, formally known as Malaya Borneo

Table 2 : Sources of Housing Credit in Malaysia

million Ringgits

	Outstanding as at end of year *		Approved during the year	
	1992	1993	1992	1993
Private Sector	20,830	24,269	5,781	6,437
Commercial Banks	15,032	17,212	4,065	4,295
Finance Companies	5,798	7,057	1,716	2,142
Public Sector	16,836	18,521	1,879	1,898
Treasury Housing Loans Division	14,028	15,252	1,320	1,313
Malaysia Building Society Berhad	1,514	1,794	373	426
Borneo Housing Mortgage Finance Berhad	414	422	39	51
Sabah Credit Corporation	217	216	13	16
Bank Rakyat	125	179	59	87
National Savings Bank	538	658	75	5
Total	37,666	42,790	7,660	8,335

* Including housing loans sold to Cagamas; 1992 RM5,345 million; 1993 RM6,076 million

Building Society Limited, was established in 1950 as the wholly-owned subsidiary of the Commonwealth Development Corporation (then called the Colonial Development Corporation). Its primary objective is to provide loans to the general public in the Federation of Malaya, Singapore, Sabah and Sarawak at reasonable interest rates. The Malayan Government became a shareholder in 1954, and four years later, the Society formed the Borneo Housing Mortgage Finance Berhad to expand their activities in Sabah and Sarawak. The operations in Singapore were taken over by the Singapore Building Society in 1969. Earlier, in 1963, MBSB became a public limited company and its shares had since been quoted on the KLSE. At present, MBSB is majority-owned by the EPF and naturally obtained most of its funding from the EPF, augmented by loans from the Central Bank, shareholders' funds and deposits collected from the public.

In 1993, MBSB performed well in the provision of housing credit to the public, with total housing loans outstanding increasing by

19% to RM1,794 million. During the year 1993, MBSB approved a total of 7,283 applications for housing loans involving RM426 million (1992: 6,665 applications valued at RM373 million). The loans disbursed during 1993 increased by 29% to RM433 million. MBSB, which accounts for 4% of the total housing credit outstanding at end 1993, is expected to remain as an important source of housing finance in Peninsular Malaysia.

Borneo Housing Mortgage Finance Berhad (BHMF)

BHMF is the counterpart of MBSB in East Malaysia. The company was established in 1958 as the Borneo Housing Development Corporation, wholly-owned by the Commonwealth Development Corporation. In 1975, it was restructured and, at present, its shares are jointly held by the State Governments of Sabah and Sarawak. The major sources of funds for the company are its shareholders' funds, loans and deposits from the State Governments of Sabah and Sarawak, and loans from the EPF. BHMF

provides housing finance to private individuals in Sabah and Sarawak. The total value of loans approved for residential housing rose markedly by 31% to RM51 million in 1993 (-9.3% in 1992). The housing loans outstanding with the BHMF, however, increased only marginally by 2% at end 1993, reflecting a lower amount of loans disbursed during the year (RM42.1 million). Housing credit from BHMF constituted about 1% of the total loans outstanding for residential housing in 1993.

Sabah Credit Corporation

The Sabah Credit Corporation, whose loans are mainly for Government employees, had outstanding housing loans of RM216 million at end 1993, a marginal decline of 0.5% compared to end 1992. However, the loans approved during the year rose by 23% to RM16 million (1992: -35% to RM13 million), due mainly to a higher amount of loans approved for Government servants (RM15.1 million in 1993 as compared with RM12.3 million in 1992).

Bank Kerjasama Rakyat

Bank Kerjasama Rakyat was established in 1954 as a cooperative society under the Cooperative Societies Ordinance, 1948 with its primary objective of channeling funds from the Government to the farmers as well as to promote thrift and savings among the rural population. Deposits from the public and long term loans from the Government are its main sources of funds. Since its inception, the bank has expanded its scope of operations beyond the traditional agricultural based lending to provide other financing facilities, including bridging finance and end-financing of houses. As regards housing finance, Bank Rakyat has been very active in recent years with housing loans outstanding increasing significantly by 43% to RM179 million at the end of 1993 (1992: RM125 million), while total housing loans approved during the year increased markedly by 48% from RM59 million to RM87 million. However, Bank Rakyat at present accounts for less than 1% of the total housing credit.

Bank Simpanan Nasional (BSN)

BSN was established in 1948 at a post office savings bank. Subsequently in 1978, BSN was incorporated as a statutory body to mobilise private savings, especially to small savers, in order to finance public socioeconomic development programmes. To achieve this objective, BSN was required to hold at least 60% of its total investment in Government securities during the period 1984 - 1992 (70% prior to 1984). In line with the downsizing of the Government operations which reduced significantly the Government's need for borrowing requirement for investment by BSN in Government securities was reduced to 50% of its total investments effective from December 1992. This has allowed BSN to redeploy their resources to other lending activities, including the provision of housing credit. In 1993, the housing loans outstanding increased by 22% to reach RM658 million at end 1993. BSN offers conventional housing credit as well as home financing according to Islamic principles. At present, housing credit granted by BSN

constitutes about 2% of total housing credit.

Private Housing Credit Institutions

In the private sector, the commercial banks and finance companies provide a wide range of housing finance schemes to the general public. The *commercial banks* provided the bulk of end-financing for housing in 1993. In terms of the value of loans outstanding, they are the principal source of end-financing for house buyers. The total value of housing loans with the commercial banks rose markedly by 15% to RM17,212 million at end 1993, accounting for nearly 40% of total housing credit. The total value of housing loans approved by the commercial banks rose by 6% to RM4,295 million in 1993, after registering a decline of 9% in 1992.

Indeed, the commercial banks loans to the broad property sector (encompassing housing loans to individuals, real estate loans and construction loans) totaled RM37,904 million (+9%) and constituted 31.6% of total loans at end 1993 (31.9% of total loans at end 1992), compared with RM26,932 million or 22.5% channeled to the fast-growing

Table 3 : Commercial Banks: Direction of Lending

million Ringgit.

	At end 1992	At end 1993
Agriculture	4,657	4,125
Mining and Quarrying	877	631
Manufacturing	25,395	26,932
Electricity	671	937
Real Estate and Construction	19,577	20,692
General Commerce	12,907	13,662
Transport and Storage	1,452	2,001
Financing, Insurance and Business Services	13,621	16,983
Individual Housing Loans*	15,030	17,212
Consumption Credit	2,798	3,849
Others	11,563	12,916
Total	108,548	119,940

* Including housing loans sold to Cagamas; 1992 RM2,704 million; 1993 RM 2,829 million

Table 4 : Finance Companies: Direction of Lending

million Ringgits

	At end 1992	At end 1993
Agriculture	1,019	883
Mining and Quarrying	134	161
Manufacturing	2,110	2,526
Real Estate and Construction	5,708	6,447
General Commerce	1,522	1,414
Transport and Storage	1,493	1,436
Business Services	831	937
Private Individuals	23,332	26,990
<i>Housing*</i>	5,798	7,057
<i>Consumption Credit</i>	14,314	15,653
<i>Other Purposes</i>	4,055	5,306
Others	2,080	2,980
Total	39,064	44,800

* Including housing loans sold to Cagamas; 1992 RM835 million; 1993 RM1,017 million

manufacturing sector. Thus, the broad property sector is by far the most significant economic sector for bank lending, absorbing close to one third of total bank loans.

As for the *finance companies*, the housing loans outstanding rose significantly by 22% to RM7,057 million at end 1993 (16% to RM5,798 million at end 1992). Similarly, the loans approved by the finance companies also increased markedly by 25% to RM2,142 million in 1993 (1992: -5% to RM1,716 million). The finance companies accounted for 16% of total housing credit at end 1993. Together with loans extended to the real estate and construction sector, the finance companies channeled RM13,504 million (+17%) or 30.1% of total loans at end 1993 (29.5% of total loans at end 1992) to the broad property sector. Consumption credit to private individuals (including hire purchase of motor vehicles), which is the core business activity of the finance companies, accounted for 37% of the finance companies' total loans. The broad property sector, which now ranks only second to consumption credit, is an increasingly more impor-

tant business sector for the finance companies.

MEASURES TO ENHANCE THE EFFECTIVENESS OF HOUSING FINANCE IN MALAYSIA

While numerous housing credit institutions, both from the public and private sectors, offer a variety of housing; finance schemes, it is recognised that many house buyers, especially the lower income group, still face severe problems in gaining access to housing credit at an affordable rate. In the private sector, commercial banks and finance companies would understandably have to conduct thorough credit vettings before making any financing available to the house buyers. Being a commercial organisation, they must ensure that all credit proposals are commercially viable propositions. Otherwise, they would have failed in their duty to safeguard the interest of their shareholders and, more importantly, their depositors. On the other hand, there have been complaints that some banking institutions are not re-

sponsive to the needs of small borrowers and they apply extremely stringent credit standards on them. Hence, the Government in recent years has deployed a great deal of human and financial resources to devise and implement a host of measures to increase the effectiveness of housing finance and, in particular, to bridge the gap between the lenders and low-income house buyers. Five key measures are discussed below.

Employees Provident Fund (EPF)

EPF was established under the Employees Provident Fund Ordinance 1951. Under the original enactment, the Fund covered only employees in certain "scheduled employment", earning less than RM400 per month. A series of subsequent amendments resulted in the coverage being gradually expanded to include all employees working in Malaysia, irrespective of monthly income (except for certain categories such as fishermen, non-residents, temporary residents and employees already contributing to approved private provident funds) and the self-employed who wished to become members. The growth in the labour force as well as wider coverage led to a steady increase in the membership of the Fund from about half a million in 1952 to 6.6 million in 1992 or about 89% of the total workforce in the country. Similarly, total resources mobilised by the EPF rose substantially from a mere RM17 million at the end of 1952 to RM62.2 billion by end 1992, representing 88% of the aggregate resources of all the provident and pension funds in the country.

Initially, EPF was set up primarily to collect and manage compulsory social security contributions for members' old age protection. However, over the years, EPF has expanded the range of benefits for its contributors to cover pre-retirement benefits, including a scheme to allow partial withdrawal of EPF savings to help members pay for the acquisition of houses. Introduced in 1977, and revised in 1992, the housing withdrawal scheme allows members to withdraw the difference between the

purchase price of the house and the amount of housing loan taken from the financial institutions. The maximum withdrawal ceiling is set at RM40,000 for the purchase of medium and high-cost houses. In the case of low-cost houses, withdrawal is permitted up to 10% of the purchase price of the house, regardless of whether the members have obtained full financing. Withdrawals under the housing withdrawal scheme accounted for about a quarter of total withdrawals from EPF in 1992. EPF has thus played a significant role in promoting house-ownership amongst its members. In the years ahead, EPF is expected to continue its effort to improve pre-retirement benefits for its members.

Cagamas Berhad

A significant milestone in the promotion of housing finance in Malaysia was achieved in 1986 with the establishment of the national mortgage corporation, Cagamas Berhad (Cagamas). Cagamas is set up as a special vehicle to raise medium to long-term mortgage-backed bonds to refinance mortgages created by the commercial banks, finance companies and other primary lenders of housing loans. With the existence of a secondary mortgage market to refinance the housing loans, primary lenders would be encouraged to continuously provide end-financing facilities to house buyers without any funding limitation.

In 1993, Cagamas purchased over RM2 billion worth of housing loans from the Treasury Housing Loans Division (RM1,360 million) and financial institutions (RM682 million). At end 1993, the total amount of housing loans purchased by Cagamas amounted to RM6.1 billion. In 1993, Cagamas floated five issues of Cagamas bonds totaling RM11.7 billion, 22% lower than the RM2.1 billion raised in 1992.

In 1993, several products and innovations were introduced by Cagamas as part of its measures to promote secondary mortgage market. These included the introduction of a new mortgage purchase facility in early

1993 known as the convertible purchase facilities which offered an option to the sellers to convert their purchases from a fixed to a floating mode, or vice-versa, midway through the tenure of the sale. Cagamas also introduced a floating rate purchase facility that was pegged to the 3 month KLIBOR, a variant of the existing facility that was pegged to the 6 month KLIBOR. In a move to widen the range of financial instruments available in the interest-free banking scheme and towards developing a viable Islamic-based secondary mortgage market, Cagamas has also purchased housing loans based on Islamic principles and introduced a new interest-free Islamic bond. The development of a vibrant secondary mortgage market should further enhance the efficiency of housing finance in Malaysia.

Lending Guidelines for Housing Loans

As part of the Central Bank's continuing programme to ensure that the public have ready access to bulk credit for the purchase of low and medium-cost houses at reasonable cost, commercial banks and finance companies are required by Bank Negara to observe the lending guidelines on housing loans. Under the lending guidelines, individual commercial banks and finance companies are required to finance a minimum number of houses costing RM100,000 and below at a certain prescribed ceiling rate, to be achieved by a stated date.

The lending guidelines on housing loans were first introduced by the Central Bank in October 1968, whereby the commercial banks were required to invest at least 50% of their total savings deposits either in housing or long-term Government securities. This was modified further in 1976 when both the commercial banks and finance companies were required to channel at least 10% of their new loans extended annually to individuals for housing. Since 1979, the requirement was replaced by a set of lending guidelines issued by the Central Bank which directed the commercial banks

and finance companies to allocate a specified proportion of their total loans outstanding to individuals for purchase of houses. Beginning in 1984, the commercial banks and finance companies were required to make new firm commitments to individuals to finance a specified number of units of houses. In view of the sustained buoyancy in the domestic economy, as well as rapid growth in loans to the housing sector, the Central Bank discontinued the lending guidelines on housing loan commitments in March 1990.

However, in the light of difficulties experienced by some house purchasers to obtain financing for houses costing RM100,000 and less, the guidelines were reintroduced in 1992. In order to qualify for the subsidised loans, the applicant must purchase the house for self-occupation. The requirement of owner-occupancy would be relaxed for house-buyers who, by the nature of the work, are not able to stay in their own houses. For a married couple, only one of them would be eligible for a housing loan at the prescribed ceiling rate. In addition, the applicant's monthly income (or combined income, if married) should not be more than RM2,800.

Under the latest lending guidelines for housing loans, the commercial banks as a group are required to make firm commitments to individuals to finance the purchase of at least 75,000 unit of houses costing RM100,000 and less each. For the finance companies, the quota is set at 25,000 unit of houses. Although the deadline for compliance is end March 1996, individual commercial banks and finance companies are required to achieve one half of the quota by end March 1995. The maximum interest rate for such loans is fixed at 9% per annum or 1.75 percentage points above the declared base lending rate (BLR) of the respective commercial bank or finance company, whichever is lower.

In view of the fact that the maximum interest rate is fixed at 9%, commercial banks and finance companies would have to subsidise such housing loans if their BLR rose above

9%. This was the scenario in 1992 and 1993 as a result of the tight monetary policy undertaken by the Central Bank. Instead of raising the prescribed ceiling rate to above 9% per annum, the Government has decided to provide an interest subsidy of 1% to the commercial banks and finance companies on the outstanding loans for houses costing RM100,000 and below. Thus, the commercial banks and finance companies were required to continue to lend at the prescribed rate of 9% per annum. As the BLR of commercial banks and finance companies reversed to a declining trend in 1994, the interest rate subsidy was discontinued with effect from April 1, 1994.

Over the years, the various lending guidelines issued to the banking institutions had proven to be effective to ensure that prospective buyers of medium and low-cost houses have access to housing credit at reasonable cost. The Central Bank generally faces no major difficulty in ensuring that banking institutions comply with the lending guidelines on housing loans. In the event of non-compliance, banking institutions concerned would be reprimanded and fined by the Central Bank. The performance of the commercial banks and finance companies as a whole in complying with the previous two year guidelines as at the compliance date March 31, 1994 was 125,177 units or 25% above the target of 100,000 units.

Abandoned Housing Project Fund (AHPF)

During the economic recession in the mid 80s, the most severe recession experienced by the country since it achieved independence, many housing projects launched during the period were subsequently abandoned. To assist the revival of the abandoned housing projects, the Central Bank set up the Abandoned Housing Projects Fund in June 1990 to provide financial assistance to deserving housing developers. Initially, the scheme was allocated with a revolving fund of RM300 million, which was subsequently doubled to RM600 million in February 1991. The bridging financing un-

der this scheme is provided at a concessionary interest rate of 2% per annum. In view of the rapid improvement in the country's overall economic performance, the AHPF was discontinued with effect from March 1992.

As at end 1993, a total of 269 applications with all estimated total project cost of RM2.5 billion were received, of which a total of 100 applications involving 23,287 units of houses and shop houses with financial assistance totaling RM382 million were approved. At end 1993, the fund disbursed amounted to RM245 million. AHPF was indeed a bold step taken by the Government to revive and ensure effective management of viable abandoned housing projects. The successful revival and completion of abandoned housing projects will not only assist the long-suffering house buyers to obtain their eagerly awaited home, but will also help prevent the wastage of valuable resources already expended on the projects.

Housing Funds

The main objective of the Government's housing policy is to ensure that all Malaysians, particularly the lower income group, have access to decent shelter and related amenities. In view of the acute shortage of low-cost houses in the major urban centres, the Government had in October 1993 announced an ambitious low-cost housing package worth RM1.404 billion (recently raised to RM1.604 billion). The package, apart from increasing the supply of houses for the hardcore poor, would also provide concessionary financing to private developers for the construction of low-cost houses. The package comprises three components, as discussed below.

RM300 million fund to accelerate the construction of low-cost houses

This Fund was established with an initial allocation of RM300 million (recently raised to RM500 million) to provide concessionary bridging finance to developers in order to

accelerate the construction of low-cost housing projects. Under the scheme, eligible developers can obtain bridging finance at a nominal interest rate of 2% per annum to construct low-cost houses. The loan is for a maximum period of 2 years or upon the completion of the housing project, whichever is earlier. Eligibility criteria are set by Syarikat Perumahan Pegawai-pegawai Kerajaan Sdn. Bhd. (SPPK), which has been appointed as the project co-ordinator for the scheme.

A pre-requisite is that the developers must first obtain approvals for the layout and building plans from the relevant authorities. Further, developers who seek financing under this Fund would be required to maintain a separate Housing Development Account for the relevant low-cost housing project. This is to ensure that the fund is channeled specifically to the low-cost housing projects concerned. Once the clearance of SPPK is obtained, application for the special bridging finance would then be submitted to the participating financial institution for credit vetting. Credit risk for the bridging finance is borne by the financial institutions. At end July 1994, seven projects have been approved for financing by the financial institutions, with total financing facility of RM74 million involving 3,956 units of low-cost houses.

RM600 million fund for construction of low-cost houses for rental to the hardcore poor

The objective of this Fund is to finance the building of low-cost flatted units in the urban areas for rental to the hardcore poor at a nominal rate. Contributions to this Fund are sourced from the Government and the private sector. The Federal Government and the Central Bank provided RM150 million each, while the private sector is expected to contribute the remaining RM300 million. As an incentive, donations to this Fund made by the private sector on or prior to June 30, 1994 were eligible for double tax deduction. As at July 31, 1994, the private sector had contributed RM289 million, of which RM150 million was from the banking sector, RM12

million from the insurance industry, RM38 million from stockbrokers and RM89 million from other corporate citizens.

This scheme will provide temporary housing accommodation to the hardcore poor who, at present, cannot afford the monthly repayments for acquiring a low-cost flat or house. The tenure of rental will be for a maximum of five years, by which time they should have progressed to a higher income level to be able to buy a low-cost house. The successful implementation of the Fund will help alleviate the perennial problem of squatters in the urban centres, particularly in the Klang Valley.

RM504 million Fund for sites and services

This allocation, sourced from the Government development expenditure, is used to finance the provision of site and services to enable the construction of houses for the poor in the rural areas by the Ministry of Housing and Local Government. Part of the allocation is also meant to provide site and services for housing projects for Government employees in the essential services, including the military and police force.

CONCLUDING REMARKS

In Malaysia, both the public and private sectors play an important role in promoting house ownership through the provision of housing finance at reasonable cost to all house buyers, particularly the lower income house buyers. The Government is committed to the noble aim of creating a prosperous and harmonious house-owning democracy. In support of this national objective, various measures have been put in place to enhance the effectiveness of housing finance. In the years ahead, the Government is expected to continue with its efforts to further upgrade the efficiency of housing finance in Malaysia. Moreover, the health of the housing finance industry has a major bearing on the well-being of the economy as a whole, not to mention the wide ranging social implications of inadequate housing in the country. ■

XXI World Congress

International Union of Housing Finance Institutions London, September 11 - 14, 1995

The XXI World Congress of the International Union of Housing Finance Institutions is to be hosted by the Building Societies Association in London in September, 1995.

The event begins with a welcome party on the evening of 11 September and the Congress business starts the following day at the Queen Elizabeth II Conference Centre, located opposite the Houses of Parliament in central London.

The theme for the Congress is *Responding to Change*. The first day of the Congress proceedings will look at change and global trends and will open with a paper by Eddie George, Governor of the Bank of England, on trends in the global economy. Nasser Munjee, Editor of Housing Finance International, will follow Mr George with a paper analysing home ownership expectations worldwide. The third topic under focus will be relations between lenders and the state but the speaker for this topic is yet to be confirmed.

The second day will focus on responding to changes in housing markets, with papers on structural changes in the housing markets of America, Britain and Australia; inflation and lending; housing finance in Eastern Europe, and the challenges facing European lenders in terms of cross-frontier funding.

The final day of the Congress explores the organisational challenge which changing markets and economic circumstances bring about. Among the papers will be a presentation on customer service and diversification in maturing markets. The diversification paper will be given by Mike Blackburn, Group Chief Executive of the Halifax Building Society which is considered to be the largest mortgage lender in the world.

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