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Low-down on high interest rates

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LIKE most house buyers in Malaysia at the moment, Mariam Ali is no happy camper. Ballooning interest rates and near unaffordable monthly instalments have her in despair.

Although the issue of high interest rates has been making headlines over the past week, discussions (heated or otherwise) about "economy-contracting" banking practices focus mainly on its effect on businesses and the "private sector" rather than individuals like Mariam who are straight-jacketed by ever-rising interest rates.

"What I want to know - and no one seems to be able to answer my questions - is who I, and the people on the streets struggling to make ends meet, can turn to for help," says Mariam, who has been servicing a RM190,000 home loan for about five years.

Before the adjustments to her now "stratospheric" monthly instalments, Mariam was paying RM1,655 to her bank. Now, however, she is straining to cough up RM2,065 a month.

"What recourse do wage earners with tight monthly budgets like me have? Right now, I'm paying so much more, but due to the scheme which my bank has worked out for me, I don't actually reduce the principal sum," explains Mariam.

The one recourse for Mariam may have had to reduce her principal was to withdraw from her savings in the Employees' Provident Fund. As she has already withdrawn from her housing account, she now has to wait a few more years before she can make another withdrawal.

"Why can't this rule of having to wait for five years to withdraw from your own savings be amended to help wage-earners weather this storm? All kinds of schemes are worked out for businesses, but what about us?" Mariam wants to know.

"Ultimately, wage-earners are the ones who are suffering the most, yet they are the ones who do not seem to have as much voice in the media as do businesses," she adds.

Another of Mariam's many fears, indeed the fear of many who have lodged written complaints with the Selangor and Wilayah Persekutuan Consumers' Association, is the prospect of having the banks foreclose on their homes.

"What is going to happen to the bulk of Malaysians striving towards home ownership, the most fundamental indicator of a developed nation? How is the Government going to ease our burdens - cruelly compounded by wage cuts, retrenchment and inflation - when most banks seem not to care?" asks a bewildered Mariam.

Given the less-than-favourable light in which banks have been appearing in the local media and housebuyers' complaints to local dailies, it seems that the popularity of banks is at an all-time low.

Recently, banks came under fire when Prime Minister Datuk Seri Dr Mahathir Mohamad lambasted their overly-tight monetary policies and high interest rates which he said had caused the economy to contract.

"Lend or close down!" he warned.

A day later, Tun Daim Zainuddin, Economic Advisor to the Government and the head of the National Economic Action Council, said that banks could afford to lower their margins on interest rates if they were more efficient.

Wage-earning housebuyers, whose only access to the media is through hotlines and letters to the editor, on the other hand, declare the banks

"cruel" and "cold".

Banks are also seen to be profiteering from the situation by raising their margins with the rising Base Lending Rates (BLR).

Seen in the context of an article produced by the Malaysian Institute of Economic Research in May, these claims may not seem too exaggerated.

According to the article ("Putting credit-tightening to work", NST, May 2) the Government had meant for its credit-tightening policy as a means of resuscitating the economy in the short term, and encouraging a more sustainable economic growth in the long term.

Aside from this, it was hoped that credit-tightening directives would allow banks to make proper appraisal of loans. This had two consequences: the rise of interest rates which the Government anticipated and checked (12.5 per cent BLR being much lower than it is in some countries where BLR is upwards of 24 per cent), and the unforeseen possibility that banks would freeze loans.

In January, banks generally increased their interest rates to attract depositors as total deposits at that point had declined by RM4.9 billion. By February, however, the deposits in the banking industry had increased while loans declined.

This, then, enabled the banking system to record a resource surplus of RM6.9 billion. Nonetheless, interest rates did not decline correspondingly, perhaps to attract an influx of foreign capital.

Not every Malaysian can grasp the ostensible intricacies of economic reports or the string of economic factors that push up their monthly instalments.

All many housebuyers feel is that their banks, such becoming entities offering seductive financial services and plans while the going was good, are now giving their so-called "valued customers" the cold shoulder by not offering them softer or more sensitive loan repayment schemes.

Last weekend, however, the Government, through Deputy Minister of Domestic Trade and Consumer Affairs Datuk S. Subramaniam, directly addressed the problems housebuyers - as opposed to just businesses - are having with high interest rates.

According to him, the Government, understanding that housebuyers are paying higher rates with the same wages, has decided to ask financial institutions to consider extending the repayment period for housing loans rather than increasing their monthly instalments.

But is this a viable long-term solution?

For a lawyer specialising in finance who prefers to remain anonymous, it is not - unless each extended loan is custom-made to help the individual meet her/his instalments after retirement.

"I'm not in favour of long-term loans above 15 to 20 years as the average age of a person who takes a housing loan (especially first time housebuyers) is about 35.

"If she or he is to have her/his loan extended, then special provisions have to be made to ensure that come retirement and usually halved incomes, the individual does not risk losing her/his home due to the inability to meet the monthly instalments at that point," he explains.

Perhaps a better solution would be for the Government to urge local banks not to charge housebuyers - particularly first time housebuyers - anything beyond one per cent above the BLR.

Although banks would protest that cost of funds are high, it must be noted that the BLR set by Bank Negara marks the break-even point for banks. Anything above that generally amounts to profits.

Indeed, a foreign bank has been offering housing loans at zero per cent plus BLR.

Banks should transform this ostensible drawback into an advantage by

offering their clients - both current and prospective - generous gestures like this which would ultimately win clients' confidence and loyalty in the long run.

At it is, they are alienating current clients and leaving a horrid impression on future ones.

Aside from banks, the Government ought also to look into interest rates charged by buliding societies which - many may not know - do not come under the auspices of Bank Negara.

For Shamsuddin Jusoh, a teacher and father of five, the rising interest rates led him to a rude discovery that Bank Negara can do nothing about what he felt was his building society's exorbitant interest rates.

This is ironic, given that building societies specialise in housing loans.

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