Property Financing

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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 information in the following pages will give 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. 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.
Â Your source of funding can be all or any combination of the following:
 - Savings
 - Withdrawal from Employee Provident Fund (EPF) account
 - Loan facility from a financial institution

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Â Â Â Â 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.

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EPF Savings
You could also withdraw from your Account 2 to help finance your purchase. Please contact your nearest EPF office to inquire about your withdrawal eligibility. Loan Applications: Documents Required
You need to provide the following basic documents before the financial institution can process your loan application: Â
 - 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
 - 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

Â Â 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.Assesing your Loan 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

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Â 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.Common Housing Loan Packages Offered by Financial InstitutionsÂ
 - Term Loan

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

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

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

Â 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.Â 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.

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 (i.e. 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.Â Â 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. Â 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. Â Â 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.Â