

Factor Affecting the Housing Financing of Bumiputera in Iskandar Malaysia

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Abstract—Housing financing is one of the important mechanisms that should be considered by all groups to meet housing needs. Housing financing problems do not only face by the low-income groups, but also medium income. There are various government initiatives implemented to help the population, especially for the bumiputera to own a house. However, due to low purchasing power and difficulties in obtaining financing facilities affected the bumiputera afford to own a house according to their eligibility. Thus, this paper presents the overview of the problems and factors that influenced a bumiputera buyer to obtain financing facilities. Data and information are collected through questionnaires and the data gathered then be analyzed by using descriptive analysis, Cross Tabulation and Correlation Analysis by using SPSS software. The main factors influencing bumiputera problems to secure housing financing facilities are house prices too high; banking restrictions; high expenditure patterns and housing policies.

Index Terms—Housing finance, financing, house price, bumiputera, income.

I. INTRODUCTION

Funding is a critical issue that must be considered in house purchasing and ownership. Findings have proved that a large number of houses allocated to the bumiputera in Johor Bahru could not be sold due to their low purchasing power. The findings also showed that it is difficult for the bumiputera to secure housing financing facilities and to provide a 10 percent deposit upon signing the sale and purchase agreement and other incidental costs to buy a house [1].

The above findings was supported by the Bumiputera Property Ownership Workshop in Iskandar Malaysia 2013 which stated that bumiputera application for funding are often rejected and not approved by the financial institutions and banks [2].

Home ownership requires high expenditures, and buyers often face dilemma when intending to buy a house because they need to face with the question of ability and needs. Buying a house requires highly financial commitment as it is a long-term investment with large benefits [3].

II. DEFINITION OF BUMIPUTERA

Under the provision of Article 160, Federal Constitution,

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the Yang di-Pertuan Agong who is the head of state is to protect the rights and privileges of indigenous ethnic groups. Bumiputera is defined as those from ethnic Malays and other indigenous ethnic groups around the country. The government must protect the rights of that groups who are the origin of the country to be balanced with the other races. Article 153 of the Federal Constitution provides that, there is a provision for housing quota for Malays, and natives of Sabah and Sarawak. This means that for a housing development, has to allocate housing, especially to Bumiputera under the Bumiputera Lot Quota Scheme.

If the parent is a native from Sabah and Sarawak as defined in Article 161A (6) (b) and 161A (6) (a) of the Federal Constitution, it is recognized as a bumiputera. Whereas in accordance with Article 160 of the Federal Constitution, the following is the definitions for a bumiputera; the religion is Islam, habitually speaks the Malay language and practices Malay customs. In Johor, most indigenous ethnic groups are Malay of Peninsula Malaysia, Kadazan of Sabah and Iban of Sarawak natives [4].

Therefore, it can be concluded that bumiputera or original inhabitants of the land are native Malays, who practice Malay customs and indigenous ethnic groups from Sabah and Sarawak who are protected by the constitution.

III. HOUSING AFFORDABILITY AND HOUSING NEED

The difficulty to give a definition on affordable housing is because of its generally involved in the ability of a household to get the housing services, while specifically, it involves the relationship between household income and the price or rental. Usually, a household does not spend its income more than 30 percent on housing.

Affordable housing level is the ratio of the monthly loan payment on the income, in which is at the rate of 30 percent from the household monthly income. Thus, the definition and concept of the affordable housing are measured by the income and expenditures of a household to pay for the price or rental of a house. The expenses are allocated for buying a house is 30 percent of the household gross monthly income [5].

Affordable housing is referred to the ability of a household pays for a house. Affordable housing concept pertains to the amount of income needed to pay for the house and other household expenditures. It is also defined as a house that can be obtained without serious financing risks, which have been set by most countries worldwide as 30 percent of the income limit. The 30 percent limit is the basis to access the financing for the affordable housing and thus becomes the reference for serious financing risk. The ability to pay is one of three elements of housing affordability. Another two elements are affordability to buy, and income capability. Repayment

capability relates to the burden of households to pay off the loan. Both the ability of repaying the loan should be given consideration and be an important measure in determining the ability of housing financing.

The breakdown of bumiputera lot quota by pricing had to be done because most of the high cost or expensive housing unit allocated for the bumiputera failed to be sold out. Thus, the State Authority had to take steps to keep the interest of the both parties, i.e., the bumiputera and developers.

The State Authority is also responsible to provide at least 30 percent from the total housing development for the bumiputera. The offered price is discounted at 15 percent of the developer's selling price. The Johor State Secretary Office (Housing Division) is responsible to implement and regulate both the Bumiputera Lot Quota Rules and public medium and low-cost housing.

IV. HOUSEHOLD INCOME

Income is the main factor influencing the ability to buy a house. Income is depended on the types of employment, period of employment and rank in the employment.

Income is very important in studying the ability to buy a house. It also influenced the types of affordable housing that a household can buy. Thus, the income received is the determinate on the price and type of houses that is affordable by a household. Table I shows, the monthly income of the ethnics in Malaysia.

TABLE I: MONTHLY INCOME OF THE ETHNIC IN MALAYSIA

Year	Ringgit Malaysia		
	2007	2009	2012
Bumiputera	3686	3624	4457
Chinese	4356	5011	6366
Indian	2283	3999	5233

Source: Household income report 2007, 2009 and 2012

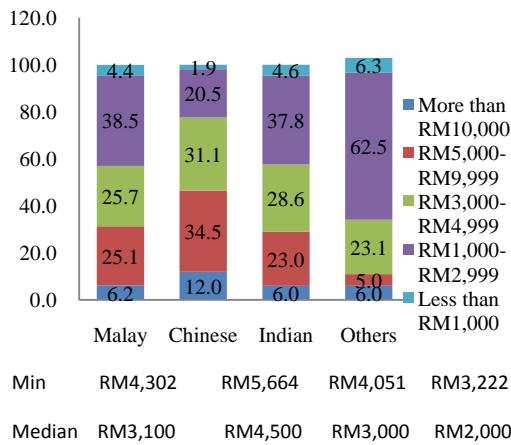


Fig. 1. Monthly gross household income in Iskandar Malaysia.

Source: CDP IRDA, 2013.

Due to the low and moderate income among the bumiputera, the banks and financial institutions find difficulties to provide loans for them (Real Estate Ownership Workshop, 2013). Table II shows the ability to own a house based on income.

TABLE II: THE ABILITY TO OWN A HOUSE BASED ON INCOME

Monthly income level (RM)	Repayment based on 25% income level (RM)	House price based on 25 years of repayment	
1000-1400	250-350	45,000-62,000	Income below RM1500 cannot afford to buy a house more than RM60,000
1500-2000	375-500	67,000-90,000	Income between RM1,500 to RM3,500 can afford to buy a house between RM60,000 to RM150,000
2100-2500	525-625	90,001-110,000	
2600-3000	650-750	110,000-135,000	
3100-3500	775-875	135,001-150,000	
3600-4000	900-1000	150,001-180,000	Income between RM3,600 to RM5,000 is able to buy a house between RM150,000 to RM220,000
4100-4500	1025-1125	180,001-200,000	
4600-5000	1150-1250	200,001-220,000	

Source: IRDA, 2012

V. HOUSING FINANCE

Housing financing is an important factor in buying a house. It is a form of financial assistance required by a buyer to finance the purchasing of a house [6]-[8]. The housing financing refers to the assistance of financial institutions such as banks and government agencies in providing loans to finance a house [9].

Financing is defined as a long-term loan with a specified repayment period for the purchasing of a house. The financing loans are provided by the banks to individuals who buy a house from a developer who has a commitment with the bank. Bank will pay the housing loan to the developer based on the progressive stage of completion. Thus housing financing involves three parties, which are developers, banks and buyers.

Strong housing financing system will give positive impacts to overall economic activity and social benefits, such as greater consumer savings, more social and labour mobility, and increased investment. Financial institutions such as banks define financial loan as an amount of money lend for a certain period of time with an interest rate at a certain amount of loan repayment. Therefore, it can be concluded that the financing is the facilities provided by financial institutions where it meets the other requirements of the borrower and must repay the loan based on the terms agreed.

VI. HOUSE PRICE AND PROPERTY TRANSACTION IN ISKANDAR MALAYSIA

Iskandar Malaysia is divided into three regions, namely the district; Johor Bahru, Kulaijaya and Pontian. Good road network links with the coastal highway to Johor Bahru and easily assessable are the factors underpinning the rise in house prices in the area. Housing Scheme near the area continued to receive strong demand from the buyers. Fig. 2 shows the increase in house prices in 2005 to 2012 in Iskandar Malaysia.

According to the Property Market Report, overall house prices in Iskandar Malaysia are improving in several areas. Strategic location, next to shopping malls such as Holiday Plaza and KSL Resort City are highly demanded and keep the

prices increasing compared with other housing schemes in Johor [10].

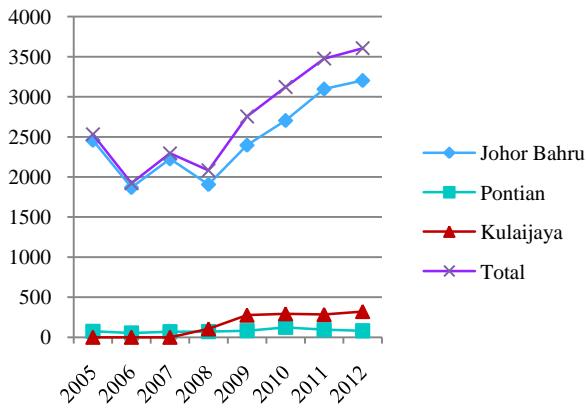


Fig. 2. The house price increase in Johor Bahru.

Source: Property market report NAPIC, JPPH and WTW (2005-2012).

Property transactions in Iskandar Malaysia growth fueled by the construction of schools and hospitals under the stimulus package, the construction of purpose-built office buildings and infrastructure projects in the civil engineering segment. Transactions also start rising because of numerous financing facilities with low borrowing costs due to the impact of the various measures that were introduced in the 2009 Budget [11]. Various projects and investments were established such as, Columbia Asia Hospital, Legoland theme park, and Puteri Harbour in Nusajaya. Moreover, the construction of the educational hub in the area surrounding had attracted more investors and visitors that improved the property market in Johor. Fig. 3 shows the percentage of residential property transactions among bumiputera and non-bumiputera in Iskandar Malaysia.

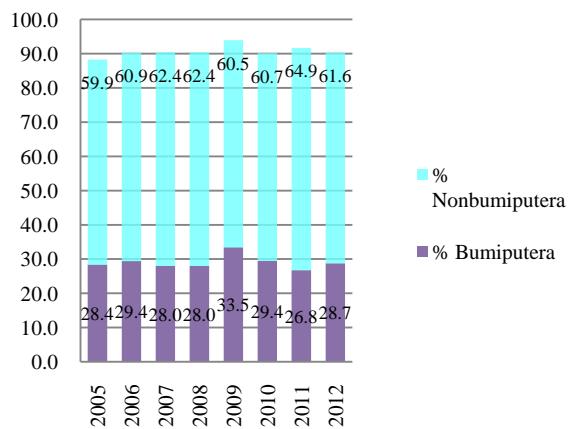


Fig. 3. The percentage of non bumiputera transfer among bumiputera and non bumiputera in Iskandar Malaysia.

Source: NAPIC (2013)

VII. FACTORS THAT INFLUENCE BUMIPUTERA IN HOUSING FINANCING

Previous studies have shown that changes in the socio-demographic have a significant impact on the demand for residential properties. In Australia and New Zealand, changes in the socio-demographic factors have an impact on

the demand for residential properties that affected the household affordability.

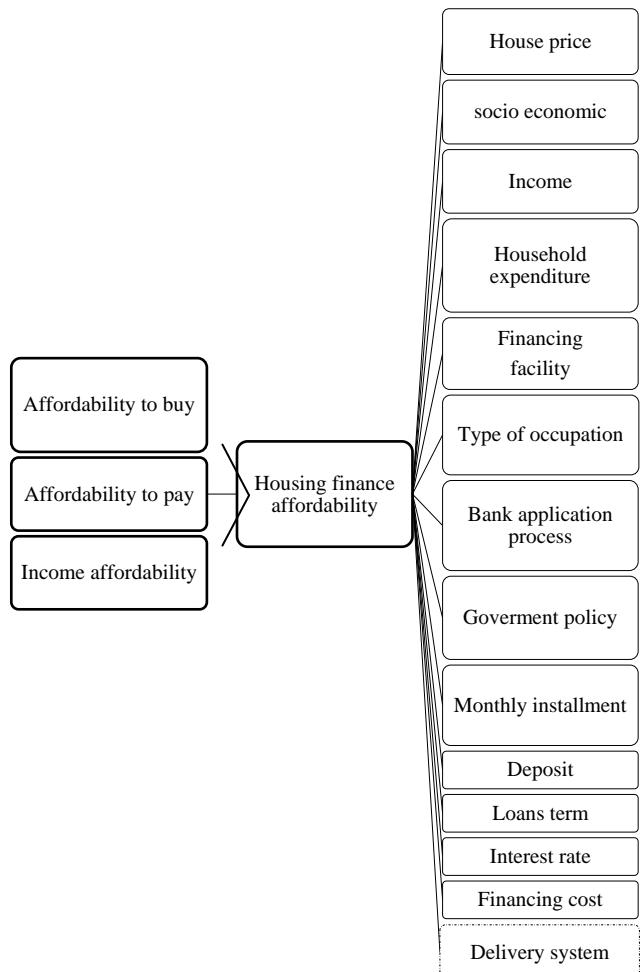


Fig. 4. The factors that affect a person's ability to finance and need to be considered before making the decision to purchase a house.

There are also studies that focused on the housing subsidy variable, the interest rate, the type of occupation, the monthly payment, house prices and income. In addition, consumption patterns, the cost of financing, the amount of monthly payment, loan repayment periods, and financing are the variables included in the study. However, according to previous studies about housing affordability are mainly focused on three key variables of household income, household expenditure patterns and housing prices [12].

Failure to own a house is often affected by the macro and micro factors [13]. Factors that have seen as a global macro factor or the overall economy's factors are economic, demographic, social and political. The micro factors consist of various aspects of financing, employment, income, housing expenditure, house prices, monthly installments, a deposit or down payment, loan amount, loan term, interest rates and financing costs.

The amounts to be provided for the payment of the deposit and incidental costs are depending on the price of property to be purchased. A deposit of 10 percent of the purchase price has to be paid upon the signing of a purchase agreement. The cost needed to be provided by the buyer himself is legal fees, security charges and stamp duty. Therefore, to obtain

financing, many aspects need to be seen and considered before making a purchase. Fig. 4 shows the framework of the factors that affected a person's ability to finance and need to be considered before making the decision to purchase a house.

In fulfilling the individual's ability to finance housing, various factors need to be considered such as the ability to buy, affordability and ability to repay the income. House prices will determine whether an individual is able and willing to pay the price offered by the seller or not. Prices are also referred to the amount of money paid by an individual to obtain housing ownership rights. Changes in house prices will give directly and indirectly impact on the demand for credit by households and their ability to repay debt [14].

In Malaysia, there are various types of funding to purchase a house through government housing loans for civil servants and private financial institutions for all individuals regardless of private or government employees. House prices are driven by economic growth, inflation, spreads between government bonds over the long-term maturities of short-term interest rates and bank credit. Higher lending rates will increase the cost of securing housing loans [15].

Most of the housing policies around the world are more concerned with housing needs compared to housing demand. One of the measurements used by the bank in determining whether a person can repay the loan is the amount of the monthly payment that should not exceed one-third of the total income [16]. If the amount of the monthly payment is low, then the period of repayment of the entire loan term is longer and the interest to be paid is also high, and this affects the financing.

Income factor is the most important element in ensuring that the type of affordable housing. Financial provision of housing should not exceed one-third of your gross monthly household income. Total income received by households can determine the price of the house and the type of house they can afford. Table III shows the income of the ethnic group.

TABLE III: INCOME BY ETHNICITY IN MALAYSIA

	Bumiputera		Chinese		Indian	
Income Group	2009	2012	2009	2012	2009	2012
Higher 20%	8,151	8,877	10,010	12,336	7,350	12,984
Middle 40%	3,360	3,985	4,009	5,328	3,520	5,013
Lower 40%	1,482	1,871	1,839	2,324	1,629	2,045

Source: Statistic department Malaysia (2014).

Bumiputera borrowers are not able to repay the monthly installment financing due to the high amount. The interest rates cause changes in monthly installments. Moreover, financial institutions only grant approval of loans to applications who meet the bank requirements, and usually, one-third of the monthly income is used to pay the loan installments. The formula for determining the amount of reimbursement per month for housing finance is shown below,

$$\text{Installment per month: } \frac{lx(i + BLR)xt}{365}$$

where

l: Total loans

i: interest rates by banks

BLR: Base Lending Rates, and

t: number of days in a month.

As an example, RM100,000 and fixed rate charged by banks is 1.5 percent and the base lending rate (BLR) is 8.5 percent, then the amount of the first installment for the month are as follows:

$$\text{Installment per month: } \frac{\text{RM}100,000 \times (1.5\% + 8.5\%) \times 31}{365}$$

RM849 per month.

The amount paid in the first month is RM849. The ability to pay back the loans are measured based on one-third of the total income. If the amount of income earned is less than the amount of installments, then the borrower will not be able to pay back the loans. If the financial institution charges a high interest rate, then it will indirectly affect the ability of borrowers in repayment of financing.

VIII. METHODOLOGY

The objective of this study is to determine the factors that influence the problems faced by the bumiputera to obtain financing. In achieving this objective, two types of data will be used namely primary and secondary data. A field survey is to be carried out to collect primary data. The instrument used to collect primary data is by set of questionnaires. The questions on the questionnaires are close ended. The data are informed of quantitative. Apart from the survey, secondary data is also required in this paper, especially for the literature reviews. The secondary data are acquired from references such as journals and seminar papers. The population in this study is bumiputera that live in Johor Bahru, with the age between 20 years to 55 years old. Based on reports and research done before, it can be concluded that Johor Bahru is the capital and largest commercial district in the state of Johor to the bumiputera in the area of 634,153 people, and the bumiputera are aged between 20-55 years is about 69,171 people [17]. Usually, populations between the age of 20 to 55 are able to buy a house [18]. In addition, at age of 20 to 55 is a reasonable period to complete financing on loans made either by the government or bank loans. The target sample size will be based on 90 percent level of confidence using Taro Yamane Formula (1973) [19].

$$n = \frac{N}{1 + N(e)^2}$$

where, *n*: total sampling, *N*: total population, and *e*: confidence level.

Therefore, a sample calculation for the bumiputera in Johor Bahru is:

$$n = \frac{69,171}{1 + 69,171(0.1)^2} \\ = 100 \text{ respondents.}$$

Data and information were collected through a set of questionnaires, and the data gathered will then later be analysed by using descriptive analysis (frequency and Likert

Scale) and Cross Tabulation Analysis using SPSS (Statistical Package for the Social Sciences) software in order to get the final result [20].

IX. FINDINGS AND CONCLUSIONS

This study has the aims to identify the factors that affecting bumiputera problems in obtaining housing financing. These findings could indirectly determine the relationship between the ability of bumiputera to buy a house and financing facility in Johor Bahru.

TABLE IV: TOTAL AND AVERAGE SCORES FOR THE 15 FACTORS THAT AFFECT THE ABILITY OF FINANCING PROBLEMS OF BUMIPUTERA TO OBTAIN FINANCING

Scale	Range index	Factors that influenced a bumiputera to obtain financing facilities	Mean
Strongly influenced	4.42-4.53	House price is too high	4.50
Influenced	4.30-4.41	Finance loan facility restrictions	4.36
		Type of occupations	4.34
		Installment per month are high	4.33
		Household expenditures	4.33
		Interest rates	4.23
Moderate influenced	4.18-4.29	Deposit are too high	4.22
		Short term loans	4.22
		Financing cost burden	4.21
		The loan application process are difficult	4.18
		Reputation of developer unstable	4.17
Less influenced	4.06-4.17	Incomes are not sufficient	4.15
		Various government policies	4.11
		Total loan from various sources	4.03
Not influenced	3.94-4.05	Credit score (credit card debt)	3.94

The above table shows the total and average scores of the factors identified that affecting the financing ability problems of the bumiputera to obtain housing financing. From the analysis carried out in Table IV, the factors that influenced the problems of bumiputera to obtain mortgage financing is the house price is too high, with the total score of 4.50. While the ‘financing restrictions’ recorded the second highest score of 4.40 with an average score of 4.36. The next factor is ‘the type of occupations’ with a total score of 438 with the average score of 4.34. This is followed by a ‘household spending expenditure’ and ‘high monthly payment installments’ with an average total score of 4.37 and 4.33, respectively. While other factors such ‘high interest rates’ score of 4.27 with an average score of 4.23, followed by a ‘short period of the loan and deposit are too high’ that score of 4.26 with an average score of 4.22. The last factor which recorded the lowest score is the ‘credit score’ with average score of 3.94.

High property prices affected the bumiputera capabilities to buy and own a house in Johor Bahru. Although house prices offered in the market are discounted by 15 percent, it is still high, especially in the strategic areas and near Johor Bahru City. For example, the price of a double-storey terrace house in a residential area in Johor Bahru had been sold for more than RM300,000 per unit. Due to the house prices are too high, the bumiputera who are mostly under the middle income group faced difficulty in obtaining financing facilities. This is because the house prices in the market are beyond the reach of financing and income. House prices keep rising

higher each year not only limit the bumiputera capability, but also will affect bumiputera to obtain financing facilities.

Bumiputera difficulty in obtaining the loan is due to the several restrictions provided by the bank. This is because the pattern of expenditure, number of household and house price in the markets, and low purchasing power affect the ability to obtain financing facilities. In addition, financial institutions and banks will only approve funding depends on the price of the house to be purchased, type, location and profile of the borrower, such as age, income level and type of employment. This is to ensure that financial institutions and banks do not bear the losses if the borrower fails to pay back the loan. In order to obtain the financing facility, a borrower has to meet the conditions imposed by the bank, such as preparing financial statements, EPF, three-month payslip, employment confirmation and others. These conditions are indirectly complicated the bumiputera group who is a self-employed to obtain financing facilities even with higher income earned.

As a conclusion, the housing financing affordability is important in residential property ownership. Affordability can be measured by socio-economic conditions. However, the ability can also be a problem for a person to obtain financing. The Bumiputera socio-economic situation in the district of Johor Bahru is still low and need government assistance to own a house. This is because although most of the respondents income are more than RM3,000 per month, the monthly installments afforded is less than RM1,000.

The Bumiputera purchasing power to buy a house is still remaining low. This causes the financial institution or banking reluctantly to approve financing facilities to the bumiputera ethnic group is to avoid high non-performing loans. However, middle-income Bumiputera still remains the main group who is interested in buying residential property allocated under the Bumiputera Lot Quota. This is because of the privileges given with 15 percent discount from the developer’s sales price as the house prices in the current market is too high and beyond their ability level. Financing problems can be overcome with the awareness from all parties. In addition, information and knowledge about the privileges of Bumiputera and more transparent bank financing under the efficient delivery system can help the Bumiputera in obtaining funding to buy a house.

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