



Accessibility of Low Income Earners to Home Financing: A Case Study in Kedah

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ABSTRACT

The purpose of this article is to examine the accessibility of low income earner to home financing facilities. This study involves 119 respondents who are low income earners in Kedah and have experience in applying and accessing home financing. Structured interview schedule was developed, pre-tested and used for collecting quantitative data for the study from the sample of low income group. Descriptive statistics were used for analysing quantitative data. Based on the finding, it shows that the lower income earners are looking for the house at the RM100,000 with monthly payment of RM500 which is the maximum amount that they can afford to pay. In addition, they also really need an aid from the government in term of specific policies for low income earners to own affordable homes. With regards to level of information, individuals need clearer and accurate information on housing loans to ensure that they can make a right decision. Therefore, policy maker particularly government and banks need to consider these factors and provide the right tenant mixes, services and other facilities that are essential to ensure the lower income earner also have the equal opportunity to access home financing.

Keywords: Home Financing, Low Income Earners, Descriptive Statistics, Government Intervention

JEL Classifications: D6, G18, H2

1. INTRODUCTION

Owning to proper housing can be considered as one of the human basic needs. However, many people in Malaysia especially those at the lower end of the economic ladder find it very difficult to own a house. One of the factors that might explain this phenomenon is the lack of access to financing facilities. Due to the level of their income that are deemed as insufficient by the banks, most of them not qualify for the facilities. As such, within the context of conventional banking system whereby the main objectives of the banks is first and foremost is to maximize profits, it is not farfetched to assume that for this group of people, access to housing remains an exclusive challenging goal.

A number of studies have been conducted on access to home ownership such as the one by Zhang et al. (2011) who examined the issue within the context of China. According to the authors, housing affordability in China is pressing to the social and

economic issues particularly for low-income families. Wang et al. (2015) also found that, only high-income earner in China can afford to buy a house. Therefore, in order to reduce the degree of inequality in China's social housing, the focus should be given to the policy management of access to economically affordable housing. Another study in Vietnam, by Tu et al. (2015) shows that less accessibility to financing and high interest rate lead to unaffordability for their poor citizen to own a house.

In Malaysia, Tan (2011) identified the government role in meeting the housing need of Malaysians. However, by using SPSS and grounded theory analysis, Hafazah (2009) attempts to identify level of satisfaction of residents in urban low cost flat towards the availability and accessibility of facilities in two cities; Shah Alam and Klang. Under the grounded theory, the researcher uses interview in which the interviewer act as moderator and respondents are free to tell his side of the story. The sampling method uses both stratified and systematic random sampling.

Hafazah (2009) further finds that respondent in Shah Alam are more satisfied compared to the ones in Klang in terms of the community facilities in their housing area. This is because almost all the fifteenth facilities within one kilometre radius have shown 80-100% availability in Shah Alam compared to Klang that lack about five facilities such as secondary school, playing field, government clinic, community hall and mosque.

The problem of housing affordability has also been examined. According to a report by Department of Statistics, Malaysia (2010), even though the living quarters have increased with the increase in the number of households from 1980 to 2010, accessibility to home financing among the low income earners in Malaysian is still low particularly in the urban area due to high living cost. During the Seventh and Eighth Malaysia Plan, the issue of low cost housing remains as one of the top agenda. The government has pushed for housing development to focus on adequate, quality and affordable housing. Furthermore, the emphasis was put on the provision of housing estate that includes safety and health features as well as other common social facilities (Hafazah, 2009). Several researchers such as Tan (2011) concurred that housing policies based on sustainability criteria which meet the basic housing need must be viewed as a necessary. Despite efforts by the Malaysian government, there are various problems and issues that have undermined the success of the government programmes under various Five Year Malaysian Plans for the past 20 years.

Lee (2009) examine the role of the state government in improving the housing conditions of the people in Penang while Ragayah (2001) studied on how to improve quality of life among Malaysians after crisis in the early 1990's. Then, Atterhög and Song (2009) made a survey of policies that may increase access to homeownership for low income household. He found out that many potential first-time homebuyers face problems with (lender imposed) down payment constraints and lack of knowledge about the economic risks (interest and price risks) associated with purchasing a house. He believed that the policies should be implemented by the policy makers to encourage households to save money for the down payment. Accordingly, registered home ownership savings plan scheme and home buyers' plan to help homeownership through savings by means of reducing tax are also introduced. This account can be converted into borrowing to own a house in the future. It also encourages citizens to rent a home with an option to buy it in the future. Lastly, he proposed homebuyer to undergo a suitable programme to improve homebuyer education on financing.

Based on study above, most of them have investigated the issue from the point of views of the government role as policy makers. Malaysian government have took one step ahead by came up with several initiatives to help low income earner to own a house. For example, under the government transformation program (GTP) the government has introduced the following programs (National Housing Policy, 2012):

- i. Offering 44,000 units of low cost house through Dewan Bandaraya Kuala Lumpur and Jabatan Perumahan Negara;
- ii. Construction of 50,000 new house and repairing house for the poor in rural area;
- iii. Lowering the cost of home ownership via down payment

financing, legal fee and low interest rate loan for low income earners who did not get to buy low cost houses provided by government.

Based on this scenario and the implementation of these new policies, two questions raised. Is the low income group has enough information on financing facilities before deciding to actually buy a house? Can they get access to home financing? Therefore this study embarks on the following objectives. (i) To examine the level of accessibility of low income earners to home financing facilities as well as their level of satisfaction on the services provided; (ii) to identify the level of housing knowledge among low income earners; (iii) To observe the real problem facing by low income earners in buying home.

2. METHODOLOGY

The primary data employed in this study mainly consists of information and data obtained from a survey that are conducted among low income earners who are home buyers in Kedah. Around 300 questionnaires were distributed in various residential areas in Kedah who have the experience in applying for housing loan as well as Islamic home financing. The data will be analysed using descriptive analysis and the result shows in finding section.

3. FINDINGS

Table 1 show that male respondents constitute almost 60.5% of the total number of respondents. With 60.5% of the sample,

Table 1: Characteristics of respondents (n=119)

Variables	Frequency (%)
Gender	
Male	72 (60.5)
Female	47 (39.5)
State of origin	
Baling	47 (39.50)
Changlun	30 (25.21)
Sungai Petani	19 (15.97)
Jitra	16 (13.45)
Alor Setar	7 (5.88)
Marital status	
Married	96 (80.7)
Single	23 (37.9)
Highest level of education	
Secondary school and lower	65 (54.6)
Certificates and diploma	30 (25.2)
Degree and higher	24 (20.2)
Number of dependants	
1 person	22 (18.5)
2 persons	21 (17.6)
3 persons	27 (22.7)
4 persons	21 (17.6)
5 persons	21 (17.6)
6 persons	7 (5.7)
Type of job	
Government sector	73 (61.3)
Private sector	33 (27.7)
Individual	13 (10.9)
Status of job	
Permanent	105 (88.2)
Contract	14 (11.8)

Table 2: Descriptive analysis of selected variables

Variables	Mean±Standard deviation	Skewness	Kurtosis
Age	38.32±8.612	0.915	0.788
Number of dependants	3.18±1.560	0.232	-0.790
Monthly income of family head (RM)	2265.24±846.774	0.252	-0.710
Monthly income of household (RM)	3420.97±1536.482	1.692	3.780
Monthly expenses (RM)	2415.89±1317.794	2.499	10.786
House price (RM)	102156.72±62770.306	1.235	1.738
Financing applied (RM)	99220.61±61003.655	1.208	1.630
Financing adapted (RM)	97598.12±59434.750	1.170	1.591
Down payment of house (RM)	6034.92±9828.700	3.219	11.838
Tenure (Month/year)	24.76±5.526	-0.585	0.689
Monthly payment (RM)	527.19±315.851	1.503	2.299

the male are well represented as head of a family. Most of the respondents are Malays and Muslims which constitutes of 8.3% of the total number of respondents. In terms of the state of origin, more than 39% of our sample originated from Baling. Table 1 also indicates that more than 80% of the respondents are married. 54.6% of the sample only attended secondary school level of education or lower. While the highest number of independents for the respondent is 3 persons per family. Most of the respondents are working in government sector (61.3%) and with permanent status of job (88.2%).

Table 2 shows the descriptive analysis including mean, standard deviation, skewness and kurtosis for selected variables. As for age, the mean is 38 years, while for monthly income of household is RM3420. The mean of house price that respondents bought is RM102,156 and secured housing loans around RM97,598. While the mean of monthly payment for the housing loan is RM527.

Table 3 shows the sources of respondents' home financing. Most of them secured the housing loan from government staff loan (51.26%) and from bank (41.18%). Other sources of financing including their own savings, borrowing from family or relatives and KWSP.

Table 4 shows the reasons for the respondents to select home financing from the above mentioned sources. Most of them state that they chose their selected source of financing because it has lower interest rate (22.68%) while another 21.86% of the respondents chose financing because is have easier and faster procedure. Other reasons stated are recommendations from family and friends, no choice and Shariah compliant.

Table 5 shows the sources of information that respondents received on home financing. Most of them stated that they gathered information from friends, family or relatives (34.45%), from their employer (31.09%) and from housing brokers (14.28%). Other sources of information are mass media and bank employees.

Table 6 is the respondents' opinion regarding home financing offered and secured. The highest score is for the item 'Government intervention is essential to ensure the housing loan application is easier and definitely secured' with a mean score 4.39 out of 5. The second highest score is also related to government intervention which is on item "The government needs to provide an alternative scheme to help people get mortgage financing." The third highest

Table 3: Sources of respondents' house financing

Source of financing	Statistic (%)
Government staff loans	61 (51.26)
Bank	49 (41.18)
Own saving	5 (4.20)
Borrow from family members	3 (2.52)
KWSP	2 (1.68)
Non-formal institution	2 (1.68)

Table 4: Reason to choose financing from the sources

Reason to choose from the source	Statistic (%)
Lower interest rate	27 (22.68)
Easier and faster	26 (21.85)
Encouraged by parents/family/friends	15 (12.60)
There is no other sources	14 (11.76)
Shariah-compliant	9 (7.56)
Other	6 (5.04)
Good relationship with the bank staff	4 (3.36)
Special package promotions	3 (2.52)

Table 5: Sources of information gathered

Information gathered from	Statistic (%)
Friends/family/relatives	41 (34.45)
Employer	37 (31.09)
Housing broker	17 (14.28)
Ads from mass media	11 (9.24)
Bank employees	7 (5.88)
Others	7 (5.88)

score further indicates the suggestion for the government to fully support the individuals to own more affordable homes. The lowest mean is for the item 'Information related to home financing is often discussed in the radio broadcast' (mean score = 2.64) which indicates that the information which very important to this group seldom discussed in mass media and it make people hardly to find the right information. The most important information to be highlighted is home financing.

4. CONCLUSION

Based on the finding discussed above, it shows that the lower income earners are looking for the house around RM100,000 with monthly payment that they can afford to pay is RM500. However, in current economics situations, bankers are looking to finance a loan above RM200,000. Hence, government intervention is really important in order to ensure that all financial provider

Table 6: Respondents' opinion regarding home financing offered

Respondents' opinion	Mean statistic	Standard deviation statistic
Government intervention is essential to ensure the housing loan application is easier and definitely earned	4.39	0.845
The government needs to provide an alternative scheme to help people get mortgage financing	4.34	0.878
The government should control the price of house from time to time.	4.32	0.965
Lenders need to explain the information clearly regarding the housing finance that they offered	3.73	0.909
I like what the home financing offered because it suits my needs	3.68	0.833
I like what the home financing offered because of their advantages	3.62	0.911
I got a professional service from the lender when I dealing with the home financing	3.61	0.903
I am satisfied with the explanations by the lenders regarding home financing that they offered	3.57	0.809
I truly understand the important things regarding home financing	3.54	0.862
Information on home financing can be easily obtained from the lenders	3.45	0.927
Information on home financing is easily obtained from any newspaper or website	3.44	0.971
I like what the home financing offered because it benefits me	3.42	1.037
Monthly payments for housing are reasonable	3.37	1.016
Generally, people can easily get the right and accurate information on home financing	3.28	0.911
Costs to get home financing is reasonable	3.21	1.08
Charge to deal in order to obtain home financing is reasonable	3.15	1.102
Penalty for home financing is reasonable	3.14	1.099
Home financing offered unreasonable price	2.96	1.217
Information on home financing is abundant on the television show	2.76	0.945
Information related to home financing is often discussed in the radio broadcast	2.64	0.899

will approve these low income earner application to buy a house that is affordable to them even though the amount of that house is lower than RM200,000.

In addition, low income earner also needs an aid from the government especially in term of specific policies for them to own affordable home. Few government policies in GTP already addressed this issue. Hence, the crucial thing now is to make sure all that policies and projects will be carry out accordingly.

Besides, with regards to level of information, individuals also need clearer and accurate information on housing loans to ensure that they can make a right decision about their source of home financing. Thus, financial provider needs to promote and explain their products to the respective group for them to have a better idea on what actually they are facing with.

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