

A NEW HOPE FOR MALAYSIAN PROPERTY MARKET: CHROME MORTGAGE

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BSTRACT

CHROME Mortgage (Crowdfunding Home Mortgage) is a shared equity home mortgage associated with a zero-interest saving account feature. U-Bank targets to integrate the concept of crowdfunding to support partial home loans so that the home buyers can own a house with a lower loan carried on. Despite having partial ownership of the house, the home buyers enjoy lower legal fees, stamp duty and MRTA instalment. Furthermore, the home buyers can either buy out the property ownership or sell it for a profit after a couple of years. An additional saving account aims to provide a monthly reduction on mortgage interest payment, subject to the saving amount accumulated across the period. However, a slightly higher interest rate is charged based on the crowdfunding proportion. In short, CHROME Mortgage is suitable for all types of property buyers in Malaysia, especially those currently not yet affordable.

OBJECTIVE

To analyze historical data, forecast, compute and integrate a design for our product

To develop a user-friendly model for homebuyers to perform their application for a mortgage loan

To brand a new profitable home mortgage product

To promote homeownership affordability among the Malaysians

METHODOLOGY

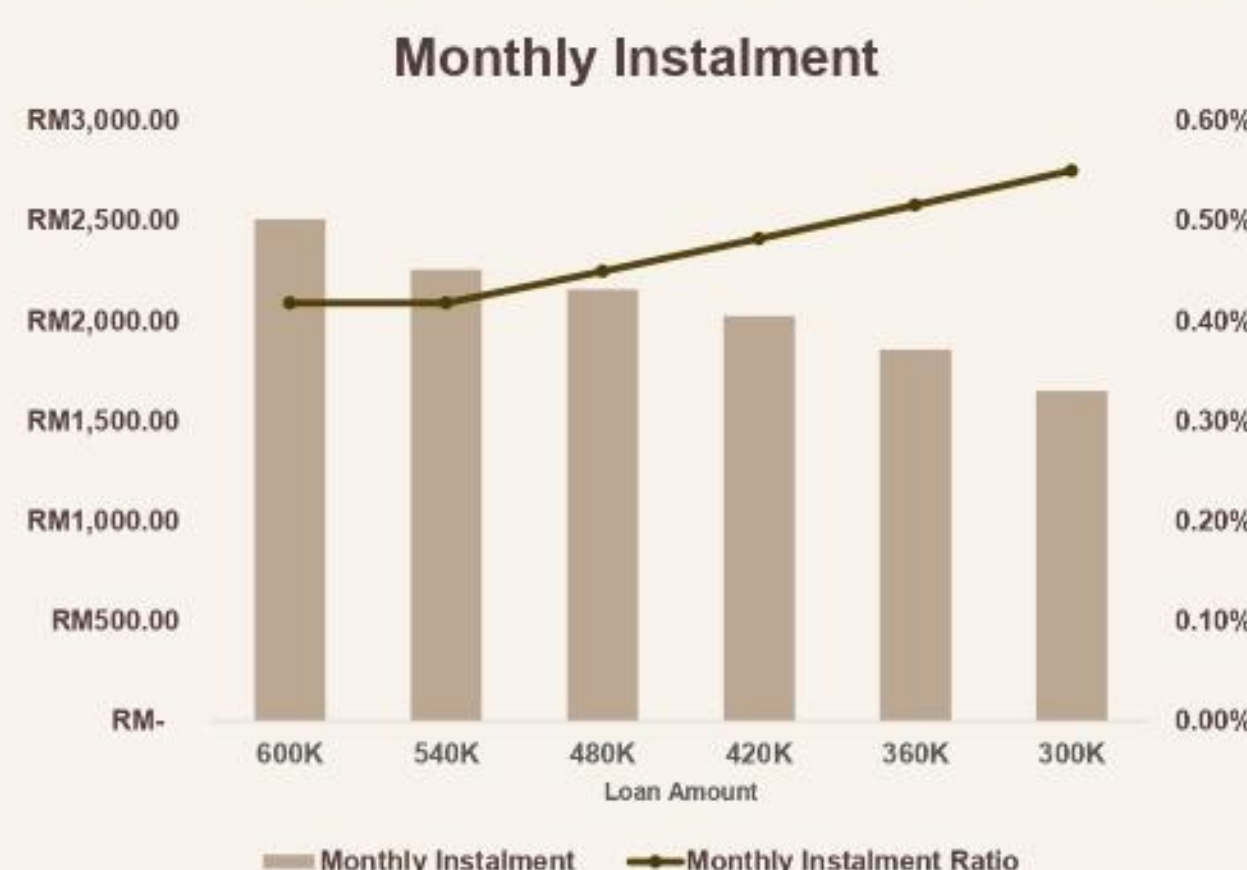
In this quantitative study, CHROME mortgage is constructed to display monthly instalments and interests paid in an amortization table based on the house price, percentage of homeownership for crowdfunding, monthly fixed income, total monthly commitments, and loan tenure collected in user form.

The affordability, profitability, and sustainability of CHROME mortgage are investigated and addressed from the perspectives of borrowers, lender, and crowdfunding investors under the same circumstances.

The findings from the statistical approaches, which entailed a visual inspection of data patterns using graphs, are interpreted with a comparative method to provide in-depth insights into the characteristics of CHROME mortgage.

Result and Discussion

Scenario: Property price = RM600,000, Monthly Fixed Savings = RM 300

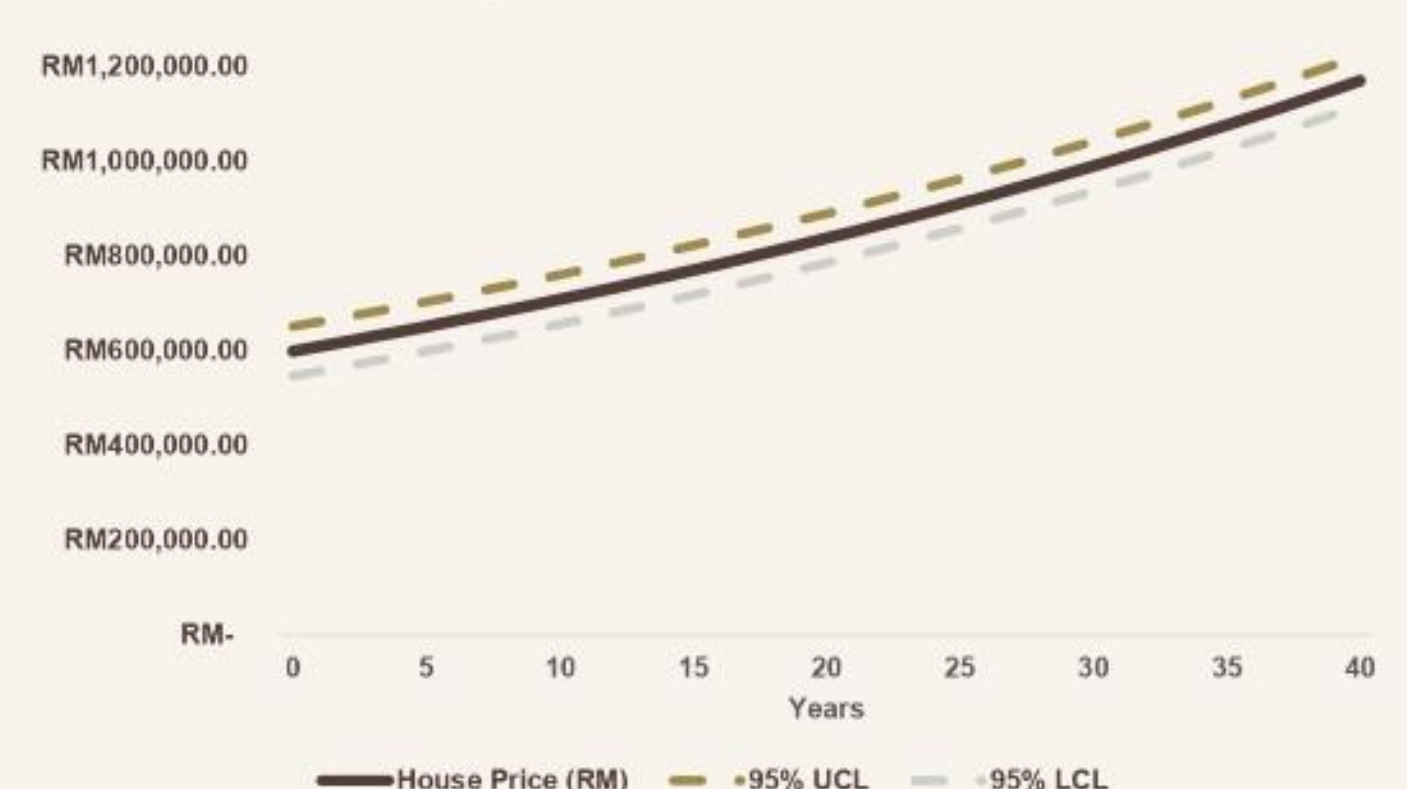


The monthly instalment reduces as loan amount lessens following the proportion of house ownership. However, monthly instalment ratio increases with reduction in ownership due to higher interest rate charged on the lower ownership proportion. Besides, since the savings amount of RM300 remains equal along the ownership proportion, the feature of reduction in interest offered by CHROME mortgage has no effect on monthly instalment ratio. Hence, ownership proportion of 90% gives the lowest monthly instalment ratio in respect of loan amount, indicating that it is the most favorable crowdfunding proportion from the borrower's perspective. The same conclusion applies to different loan amount having equal savings amount.



The profitability of CHROME mortgage appears to be inferior as compared to the standard mortgage if the borrower opts for a higher percentage of equity financing, accredited to the interest-saving benefit provided to the borrowers. As higher interest rate charged on cases requesting greater support from crowdfunding, the profitability of CHROME mortgage improves following the reduction in proportion of equity financing and eventually turnovers the lead at 70-30 of equity-crowdfund financing. Plus, the cash outlay at inception of this point is way lower compared to options with higher equity-financing. Thus, from the loan provider's point of view, the borrowers are encouraged to leverage higher proportion of crowdfunding to enhance the product's profitability as well as the affordability of monthly instalments among borrowers.

Forecasting of House Price for 40 Years



The equity-based property crowdfunding platform allows investors to readily participate in a diverse portfolio of properties with a low initial capital and minimal risk, while also promoting more homeownership transactions with a variety of homebuyer profiles by lowering the difficulties in obtaining mortgage loans. Simultaneously, the said investors may retain control of their respective investments without paying for the charges involved in home purchases, and they will be able to cash out their positions by disposing their investment portion before the loan term expires. Given the present low entry level, investors may expect competitive returns of 8% to 17% in house price for their funds in the next five years. This is supported by the positive forecast for Malaysian housing market, which is anticipated to witness strong price gains over the next five years at an estimated nominal rate of 8% using constant growth model.

CONCLUSION

In a nutshell, CHROME mortgage is a joint initiative between U-bank and investors from crowdfunding to provide a viable alternative homeownership. Hence, this creates a win-win situation for all parties involved, as this product should encourage prospective homebuyers to own a home with lower monthly payments and investors to co-invest in the housing market and share the profits, resulting in a positive spillover effect for the national economy.