

CHAPTER IV

POLICIES AND PRACTICES OF SELECTED FINANCE COMPANIES IN MALAYA

In this Chapter, two finance companies, one specializing in industrial financing and the other in house financing will be taken as examples for case-studies.

MALAYSIAN INDUSTRIAL DEVELOPMENT FINANCE LTD.

- A Case Study

This company was chosen because of several reasons:

- i) It is the most specialized and biggest finance company dealing in industrial financing.
- ii) Its activities are varied, thus financing methods are broader in scope.
- iii) It has contributed much to the industrialization programme of Malaya.

Objectives of Malaysian Industrial Development Finance Ltd.

Malaysian Industrial Development Finance Ltd. (M.I.D.F.L.) was set up with the primary objective of financing private industrial development in Malaya. In essence, it is a sort of development bank providing long-term capital to industrial ventures.

A related objective of M.I.D.F.L. is to provide industrial knowledge and advice to private industrialists. Such facilities are lacking in Malaya, and M.I. D.F.L. helps to fulfill the gap.

Also, M.I.D.F.L. has the objectives of savings on foreign-exchange, in crease in export earnings, more utilization of domestic raw materials, and such factors related to an increased rate of industrialization.

Finally, M.I.D.F.L. hopes to correct the 'imbalanced' nature of our economy by increasing the pace of industrialization.

The General policies of M.I.D.F.L.

M.I.D.F.L.'s policies are tied very closely to its objectives. They are formulated with the view of helping industrialists on a long-term basis while at the same time ensuring that their investments are

sound and profitable to the owners. The policies are:

Maximum contribution to the industrial development of Malaya in its private sector, while at the same time ensure that the assisted projects are economically sound.

To increase the level of employment whether skilled, semi or unskilled labour, in the country.

M.I.D.F.L. also has the policy of attracting foreign private capital which has inherent qualities of experience, management and technical qualities. Moreover, foreign ventures are relatively more 'venturesome' and willing to accept greater risks.

Another policy of M.I.D.F.L. is to 'even' out the growth of industrialization in Malaya so that the beneficial spread effects could be more equitably spread throughout the nation. M.I.D.F.L. is proposing to begin operations in Sabah and Sarawak soon.

In its attempts to promote industrialization in the country, M.I.D.F.L. follows the policy of granting of loans liberally to all those projects which could prove themselves to be economically sound and beneficial to the country.

Historical Development and Growth of M.I.D.F.L.

M.I.D.F.L. was set up in 1960, on the recommendation of a World Bank Mission which investigated into the financial and economic conditions in Malaya, during 1954. That Mission suggested the setting up of an industrial credit corporation similar to those in operation in other parts of the world.

It was sponsored by the Federation Government, the commercial banks, the Colonial Development Corporation, the Commonwealth Development Finance Company Ltd., insurance interests in Malaya, as well as many private investors both in Malaya and overseas.¹ Originally, local interests held only one-sixth of the subscribed capital of \$15 million Malayan dollars while the rest was subscribed overseas.

The capital was increased to \$17.5 million dollars, when the Central Bank of Malaya contributed its share.

In 1963, the World Bank and its affiliate, the International Finance Corporation (I.F.C.) invested in M.I.D.F.L. The World Bank lent \$U.S. 8 million while the I.F.C. subscribed an equivalent of \$U.S. 833,000 in newly issued shares. Furthermore, M.I.D.F.L. was able to receive from the World Bank, an interest-free loan of \$37.5 million

¹Present shareholders include financial institutions in Malaya, France, Hongkong, India, Japan, Thailand, U.K., U.S., and Germany.

repayable over 30 years. The Board of Directors was reorganized to reflect the new pattern of ownership, and the company's Charter was amended, for it to operate in the Bornean States. Through these measures M.I.D.F.L.'s subscribed capital was raised further from \$17.5 million to \$25 million of which 60% was paid up. The I.F.C. as mentioned took up \$2.5 million worth (i.e. 25,000 shares) while the rest was taken up by domestic investors and overseas subscribers.

In all, the immediate financial resources available to M.I.D.F.L. is \$62 million and would rise to \$82 million after the Government has fully released its \$37.5 million loan.

At present, nearly 38% of the present share capital is held locally, including \$2.5 million each by the Government and Bank Negara. Malayan interests combined with I.F.C., will hold more than 50% of the total share capital. The Government, Bank Negara and I.F.C. have indicated that they would sell off their shares to private investors in Malaya as rapidly as is consistent with good marketing practices.

Growth of M.I.D.F.L.

From Diagram I, the amount of loans and investments approved rose continuously from more than \$2 million in 1961 to over \$40 million in 1965. The amount disbursed rose from over \$2 million to about \$30 million over the same period.

Beginning operations in 1960, loans totalling \$2.154 million were approved for a match manufacturing company, a sawmill and plastic manufacturing. In 1965, the rubber goods industry alone takes up approximately \$7.8 million.² The rest of the industries financed as at 1965 totalled \$27 million.

Role of M.I.D.F.L. and how it promotes Industrialization

Its main role in the Malayan economy is to fill the institutional gap in the supply of funds for small and medium-sized industries as well as big industries, through the provision of long-term finance. This type of finance, is not obtainable from commercial banks and other traditional forms of financial institution which lend only on short-term. M.I.D.F.L. assists those industries which lack funds, experience, managerial and technical 'know-how', M.I.D.F.L. believes that if these industries are assisted timely, they will contribute to the economic growth of the country.

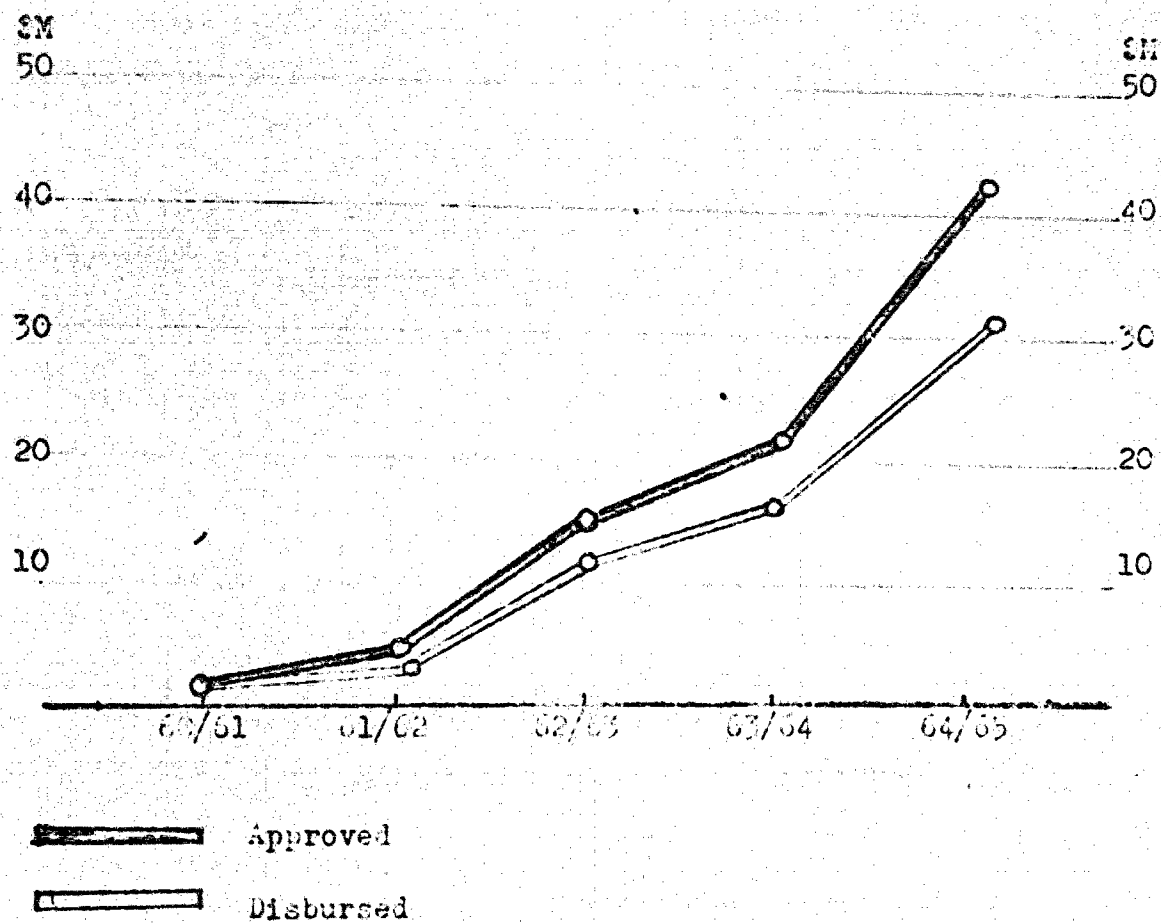
Through its role in the creation, expansion and modernization of manufacturing industries in Malaya, M.I.D.F.L. does not finance the mining, rubber or fishing industries. Its role is restricted only to manufacturing industries as it believes that:-

- These relatively older-established industries have sufficient capital funds and reserves and capable of standing by themselves.

² See Diagram 2.

DIAGRAM I

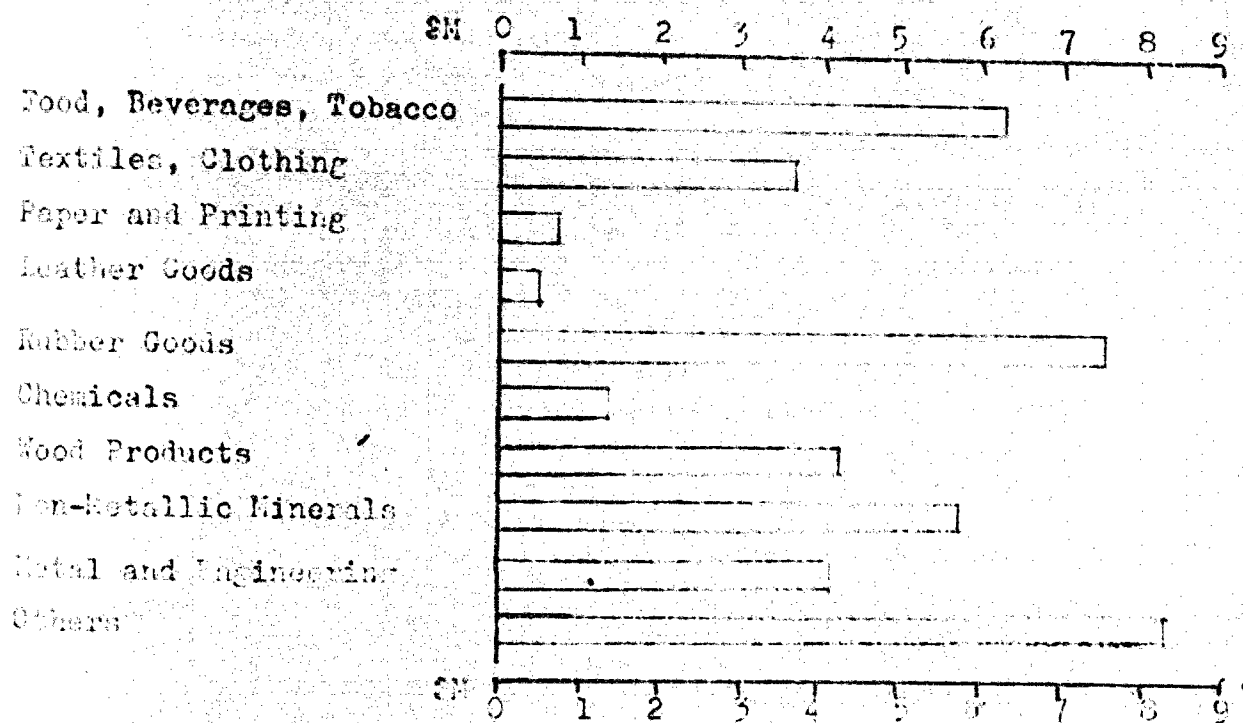
LOANS AND INVESTMENTS, APPROVED & DISBURSED (CUMULATIVE)



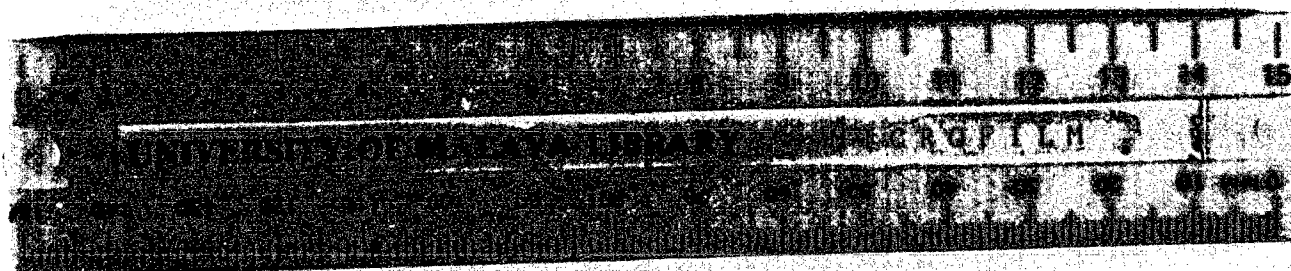
Source: M.I.D.F.L., Annual Report & Accounts 1965.

DIAGRAM 2

INDUSTRIES FINANCED (UP TO MARCH 1965)



Source: M.I.D.F.L., Annual Report & Accounts, 1965.



- The investing public is well aware of the existing opportunities in rubber and tin-mining.
- There are credit-institutions and cooperatives assisting these industries.

To understand more fully the role which M.I.D.F.L. plays in industrialization, it is proposed to discuss the various ways in which it helps to promote industrialization. They are:

a) Medium or Long-term Loans. In this scheme, M.I.D.F.L. lends up to 50% of the total cost of land, building and machinery for a period of five to fifteen years. Security of the loan takes the form of a first mortgage debenture charge on all or some of the company's fixed assets. At times it will also consider loans for initial or the expansion of working capital. However, fluctuating or seasonal capital requirements are not entertained, as these can be more suitably met by bank accommodation.

b) Hire purchase Financing of Machinery or Industrial Plant. In this scheme, the prospective industrialist pays only a minimum of 25% of the C.I.F. price of the asset. The rest of the payment would be paid by M.I.D.F.L. This is akin to the method of hire purchase of cars as discussed earlier, i.e. the industrialist hires the asset from M.I.D.F.L. and continues paying the instalments or 'rents' until after the last payment when he becomes the legal owner. The usual period allowed for repayment is thirty-six months, as depreciation rates for fixed assets are considered very high. It is a common practice that only assets costing at least \$50,000 will be financed through this scheme.

c) Factory Mortgage Financing. Under this scheme, M.I.D.F.L. finances to a maximum of 80% of the cost of land and factory buildings. The industrialist has to pledge the land and the factory building as mortgage security for the loan advanced. M.I.D.F.L. advances the loan by progress payments in accordance with the stage of construction of the factory buildings. Repayment periods can be arranged from five to ten years or even fifteen years in special cases.

The exact terms of the loan will depend on factors like suitability of the factory-design, quality of construction-materials as

well as the quality of construction work. For this reason, M.I.D.F.L. advises prospective industrialists to follow the standards set in "Standard Factory plans" approved by M.I.D.F.L. Better terms of loans are obtainable, if the set standards are followed.

Basic Procedures of Factory Mortgage Finance

- i) M.I.D.F.L. has to approve of the land and the title to it. It sends an expert to inspect and evaluate the land and to confirm that it is free of any claims.
- ii) M.I.D.F.L. has to approve of the factory-design. If it follows the standards set by M.I.D.F.L., favourable terms are available.
- iii) The financial standing and credit-worthiness of the industrialist are next assessed.
- iv) Before the loan is disbursed, M.I.D.F.L. insists on an adequate insurance coverage against fire, storm or flood.

Regarding the first three forms of financial assistance, the loans are repayable by means of periodical instalments of principal plus interest on monthly, quarterly, semi-annually or annually basis; depending on the agreement reached. The exact amount payable per instalment would depend on how much the company will be able to earn in the future.

The rate of interest is about $7\frac{1}{2}\%$ to $8\frac{1}{2}\%$ per year, calculated on a yearly outstanding balance basis. The exact rate charged individually depends on factors like:-

- i) Cost of money in the market
- ii) The security offered
- iii) whether M.I.D.F.L. can convert loan into equity-interests when the company's earnings are high.
- iv) The original rate would be lower if a contingent rate is charged, when returns to share-capital of the company exceeds a certain percentage.

d) Debenture, Preference and Equity-share Participation
M.I.D.F.L. may supply the capital needed by taking up debenture issues, preference or ordinary share capital of new or expanding industries. The equity-shares held by it would be later sold in the market back to existing share-holders on a pre-arranged scheme, as it is not the policy of M.I.D.F.L. to share in the management of the industry. In cases where a vast amount of subscription is

involved, M.I.D.F.L. retains the right to appoint a director to the managing board, but this is seldom practised. This is because, M.I.D.F.L. believes in assisting industries to acquire the necessary assets and leaving the management aspect to the owners.

e) Advisory Services in Raising Capital. This is a non-financial assistance through which M.I.D.F.L. helps to promote industrialization. Prospective clients before embarking on any projects can obtain expert advice on capital needs, effective capital-structure and the most economical means of raising them from M.I.D.F.L.

f) Share Issues. M.I.D.F.L. also acts as an issuing-house for new capital flotations or for existing concerns. It also undertakes to underwrite issues of shares.

g) Turnkey Projects. These are ready-made plans for the complete establishment of suitable production units. The plans include details on capital-cost, plant-layout, equipment and labour requirements - all essential factors to consider before an enterprise can be set up.

h) Development and Financing of Industrial Estates³ Malaysian Industrial Estates Ltd., (M.I.E.L.) a subsidiary of M.I.D.F.L. was formed in 1964. Its objective is to assist middle-sized and small industries to acquire suitable plots of land, as well as assisting them to acquire factory buildings and operating various schemes to finance their production costs.

Other facilities offered are:

- Helping various State Governments in apportioning their industrial estates into suitable plots for the establishment of industries. It also gives advice on the economical layout and development of basic facilities on the estates.

1) Non-financial Assistance to Industries.

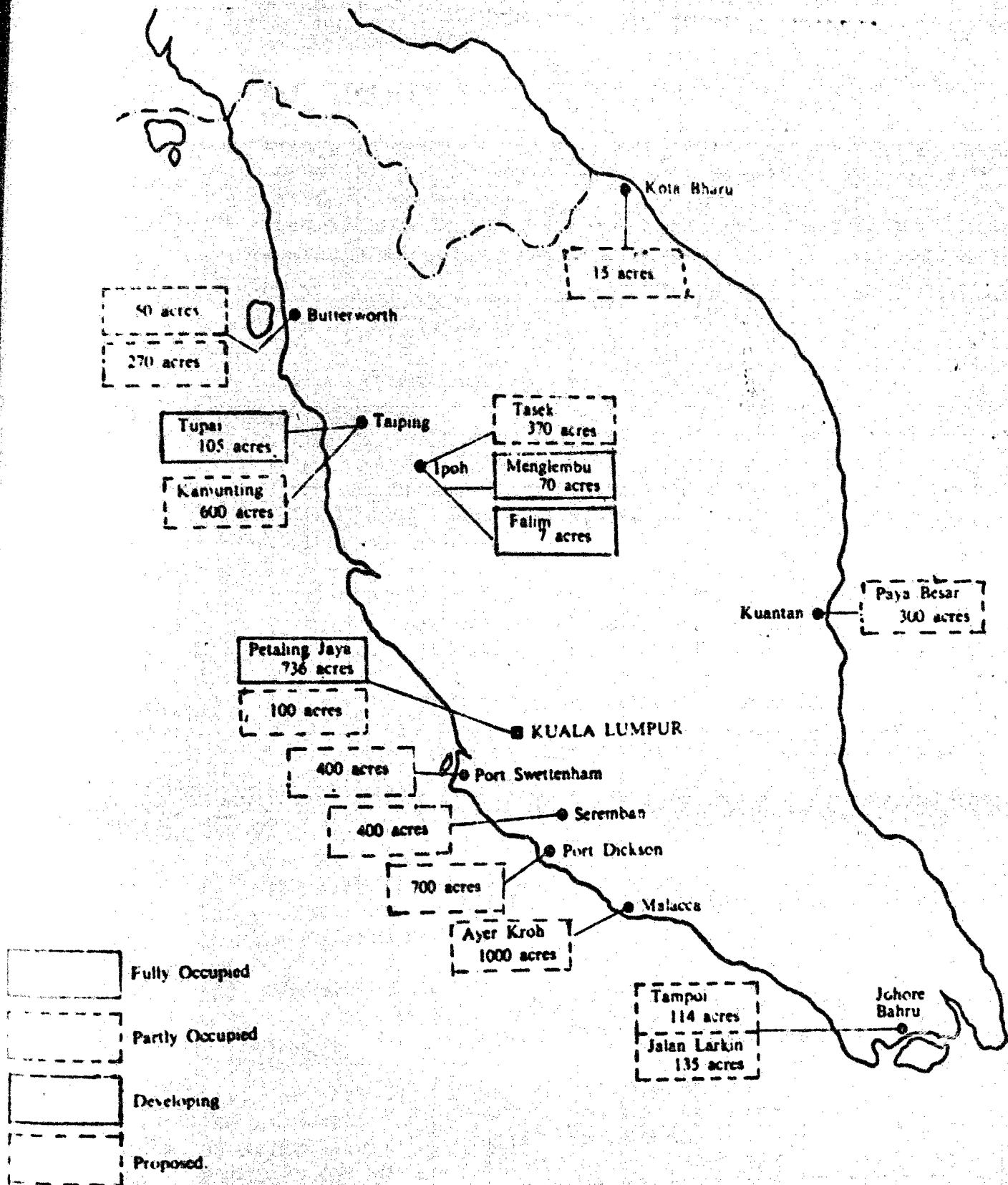
Broadly, M.I.D.F.L. offers three forms of services in its role of promoting industrialization in Malaya.

1) Entrepreneurial: This encompass various aspects of managerial, technical and administrative

³ See Map I, for Industrial Estates Financed by M.I.D.F.L.

MAP I

INDUSTRIAL ESTATES IN MALAYA



Source: M.L.F.L., Annual Report and Accounts, 1963.

advice given to entrepreneurs on request. These are very important aspects of management, which are lacking in Malaya. Questions on choice of machinery, layout of factory, work-flows etc. are important to consider before operations can begin.

ii) Informational: This includes the various ways and means by which M.I.D.F.L. brings its workings to the knowledge of potential industrialists. It does this by giving talks, publishing its reports, distributing pamphlets and giving press statements.

iii) Research: This is not carried out to a great extent because:

- Its primary objective lies outside this scope.
- Lack of trained personnel.
- The Industrial Development Division (of the Ministry of Commerce and Industry) undertakes industrial research on a national level.

The recent research on the paper and wood-pulp industry is understood to be the first real research undertaken by M.I.D.F.L.

Basic Policy-considerations on which M.I.D.F.L. makes a Loan

Its basic policy is to finance development of private industries which would contribute to the economic growth of Malaya. Within this policy framework, entrepreneurs seeking loans for projects have to satisfy these requirements.

i) The project must be commercially viable. The products must 'sell' and the company must be able to earn returns.

ii) Administrative and technical management must be available to conduct the business efficiently.

iii) The proposed project must contribute to the industrial growth of the country, in terms of export-earnings, savings, on foreign exchange and the possible "spread-effects" of industrialization.

It must create more employment opportunities.

Regarding the actual financing of loans, M.I.D.F.L. finances a project only up to the paid-up capital of the company.

Procedure of loan application, loan appraisal and loan disbursement

The procedure involves a series of stages, which will be discussed below:

i) The Preliminary Stage. The potential industrialist seeking financial assistance meets the staff in the Operations Section where an informal discussion of the loan is held. This informal meeting will enable the applicant to explain his plans, the amount of loan and the details of the project he has in mind. In turn, M.I.D.F.L. would advise him on the scope of its operations, the amount of loan available and the various conditions to be fulfilled. He will then complete an application form to be submitted for appraisal.

ii) The Appraisal Stage. A working party assisting of an engineer, economist and financial analyst carry out an intensive study of the feasibility of the project. It is appraisal in terms of its contribution to the economy, its potential earnings, and its technical feasibility.

On the findings, M.I.D.F.L. is able to judge the 'soundness' of the project as well as to formulate its conditions on the actual financing of the loan.

The findings are compiled into the Appraisal Report to be submitted to the Operations Manager. The Report brings out the highlights of the study and stressing the pros and cons of the technical, economic and financial aspects of the project.

iii) Staff-level meeting stage. Assuming that the Operation Manager approves of the Report, it is submitted to a detail scrutinisation by the Staff Loans Appraisal Committee. This committee includes the General Manager, Secretary-Accountant, Financial Analyst, engineers, economists and various heads of departments.

iv) Loan Agreement Stage. The Report with any recommendations will be sent to the Directors for their approval. Then the Loan Agreement has to be drawn up by M.I.D.F.L.'s solicitors and sent to the applicant for his inspection and approval.

v) Disbursement Schedule Stage. The applicant is requested to state in this schedule, the various

points of time when he wishes that funds be available. M.I.D.F.L. pays out the loan in accordance with the stage of progress of the project.

vi) Follow-up Operation. Often a newly established industry meets with difficulties it cannot solve itself. M.I.D.F.L. has a Loan Follow-up Operation Committee which would analyse the problems and suggest any corrective action.

Some Problems faced by M.I.D.F.L.

These can be broadly categorised into external and internal problems.

i) External Problems. There is poor financial control and a lack of systematic accounting procedure in many firms. These have adversely affected M.I.D.F.L.'s attempts to analyse their problems and to assess their position as regards their application for financial or non-financial assistance. This problem has slowed down M.I.D.F.L.'s pace of operation.

There is a reluctance amongst applicants to divulge full details of their plans. This again slows down appraisal and disbursement of loans. It may even result in rejection of application.

Foreign-competition may prove too formidable for new industries. It has discouraged investors from moving into new industries. Regarding the granting of Pioneer Industry Certificates, it is deemed to take too long a time. This has resulted in a slowing of M.I.D.F.L.'s operations as well as a 'narrowing' effect on its scope of activities.

ii) Internal Problems. These centre around the lack of a suitably qualified and experienced staff, especially for research purposes. This has hindered research into product possibilities, and industry opportunities for the future.

A Conclusion - M.I.D.F.L. and economic development of Malaya

Large scale investment in Malaya has been associated for decades in investment in Commercial Agency-houses dealing mainly in import and export business. Trading by far accounts for the major portion of all business investment. The remainder is channelled into estate-cultivation, rubber, mining, professional business operations and building construction. This trend was due to the fact that private individuals preferred investing their money where capital turnover is rapid and return-rewarding. Hence, industrial-ventures find it extremely

difficult to attract these domestic funds as these funds would have to be tied up for long-periods and any returns are reliable only after a period of years.

Today, economic development has been interpreted to mean "economic industrialization" in many developing countries like ours. Perhaps, it is unwise to think that by only industrialization we can pull ourselves out of the rut; but we must remember that it is perhaps the only alternative left. Over-dependence on rubber, tin and a few other primary resources are much too subjected to fluctuating demands reflected in the unstable nature of world-prices. By industrialization, opportunities exist for reaping higher returns. Productivity is higher, (by the very nature of the process) than developing primary-resources.

One of the most talked about and suitable forms of industrialization is the processing of our raw materials rather than selling them abroad and paying for them at a higher price in the form of sophisticated imports. Therefore, from Diagram 2, we note that 'rubber' industry financed was \$7.8 million the largest amount among the whole lot. The country is then able to save on foreign exchange, able to create employment and a host of other inter-related advantages to be secured. In short, value can be added to goods, that far outweighs the cost of raw material itself, and most important the value is being retained in the country in the form of employment, wages, profits and technical experience.

However, in the process of industrialization formidable problems such as lack of funds, inexperience, ignorance, prejudice and other subjective difficulties. To this end, M.I.D.F.L. strictly a "development institution" has been formed to correct their problems by mobilising all domestic and foreign funds and effectively and economically using them by providing medium and long-term loans, giving expert technical and managerial advice - in all, to help in the industrialization growth of this country.

The Government can only encourage, exhort, and help an individual to give his ideas, real existence, as it is not possible to force him to invest in an industry, he does not want to. Thus, while Government planners must necessarily conceive and project in terms of national strategy and comprehensive policy, the plans of individual businessmen have to be worked out in the form of individual projects. To finance individual projects, it requires careful scrutiny of information supplied, giving advice to improve its viability, a close-watch on the growth to ensure timely completion and efficient-working of it. If planning is advisable at national-level it is indispensable at project level. The role of M.I.D.F.L. is to ensure such planning at project-level.

- A Case Study

This house finance company was chosen as the case study of finance companies dealing in house financing because of several reasons:

- i) It is the most specialised and largest of house financing companies in Malaya.
- ii) It has a relatively longer history than most other house finance companies. Thus more information on its policies and practices are available.

Objectives of Malaya Borneo Building Society.

The objectives of Malaya Borneo Building Society (M.B.B.S.) is to promote thrift and home-ownership in Malaya. It achieves these joint objectives by helping individuals to finance purchase of new houses whilst providing facilities whereby the public can save through deposit schemes.

Policies of M.B.B.S.

M.B.B.S. follows a policy of being more favourable in its terms of lending for smaller and less expensive houses than for the expensive types. Apart from being a social consideration, by encouraging more people to own houses; M.B.B.S. deems that expensive houses are less stable in demand, in the market if they have to be resold in cases of default.

Another policy which it adheres to is that it finances only those houses built under housing-schemes which are approved by M.B.B.S. In practice, M.B.B.S. at times also agrees to finance privately built houses on the conditions that M.B.B.S. must approve of the plan, supervise the construction and other considerations.

Historical Development of M.B.B.S.

In Malaya, the building-society movement came first to Singapore in 1937, with the formation of the Building Society of Malaya (B.S.M.) as a subsidiary of Overseas-Chinese Banking Corporation.

By far, the largest society in operation today is M.B.B.S. with an issued share capital of \$39.71 million and mortgage assets of over \$113 million outstanding.

M.B.B.S. was originally sponsored in 1950 by the Commonwealth Development Corporation (C.D.C.) which subscribed \$2.3 million of capital with the objective of promoting home-ownership in this country. This was because of the acute shortage of houses in Malaya (and Singapore) after the Pacific War. Soon with the rapid rise in its activities, the sum was inadequate. Hence in 1951, the issued share capital rose to \$7.75 million - more than three times just after a year. This figure

has been gradually rising until the 1965 figure of \$39.7 million.⁴

In 1954, the Malayan Government became a shareholder when it subscribed \$10 million in ordinary shares. From Table 1, it can be seen that the rate of increase in issued capital is higher between 1950 and 1958 than from 1958 till the present time. This is because, from about 1957 till the present date, M.B.B.S. incurred heavy long-term liability by way of increases in long-term loans. In other words, as alternative sources of funds were made available, acquisition of equity-capital tends to ease off.

In 1963, M.B.B.S. felt that there should be more local participation in its equity-interests. Therefore, C.D.C. offered \$15 million of its \$15.5 million worth of shares to the public. That issue was almost 30 times oversubscribed - an indication of the investment potential of the public. The Government however, has not shown any indication of disposing its \$15 million shares (\$10 million ordinary and \$5 million preference shares). This situation does not offer any explanation; perhaps it is waiting for a more 'favourable market'.

At present, the major shareholders are mainly institutional-bodies and of non-speculative nature.⁵

With regards to the volume of business done, in terms of the amount of outstanding mortgage assets held; it rose from only \$2 million (1950) to \$113.7 million in 1965. In terms of the number of active mortgage accounts, it was 114 in 1950 and increased to more than 16,000 at the end of 1965. Over these years, M.B.B.S. has assisted some 24,000 families to own their homes, by lending and some \$250 million. The period saw the largest single release in 1957, (the year of political independence) of nearly \$30 million.

Role of M.B.B.S. and how it promotes thrift and home-ownership

M.B.B.S.'s role in the economy is to help families to own their own houses. It carries out its role, by financing a portion of the cost of the house and allowing the house-owner to repay the loan over a period of years.

Its complementary objective is to promote thrift amongst the people, by operating deposit-schemes, for the purposes of either encouraging people to save for the sake of 'saving' or to save with the intention of buying their own houses. (special privileges are given to house-buyers who are depositors as well).

⁴See Table 1.

⁵The two main shareholders are: Federation Government and C.D.C. and the two principal lenders are: Employees Provident Fund and Hongkong and Shanghai Banking Corporation.

TABLE 1

SHARE-CAPITAL, LIABILITY, MORTGAGE ASSETS, NUMBER OF
ACTIVE ACCOUNTS - M.B.B.S.

Year	Issued Capital	Long-term Loans	Current Liability	Mortgage Assets Outstanding	No. of Active Mortgage Accounts
1950	2.30	-	0.01	1.99	114
1951	7.75	0.02	0.09	6.79	531
1952	7.77	5.63	0.35	12.67	914
1953	8.20	8.31	0.67	16.54	1,236
1954	9.20	12.42	0.64	22.70	1,975
1955	12.50	21.78	0.99	35.31	3,578
1956	20.00	32.18	1.75	53.13	5,710
1957	27.22	46.57	1.99	74.74	8,509
1958	38.87	44.46	3.54	85.10	9,668
1959	38.87	43.01	3.76	86.19	10,734
1960	38.87	40.64	3.83	85.46	11,309
1961	38.87	41.78	3.76	86.02	11,886
1962	38.87	44.07	3.66	89.14	12,520
1963	39.69	48.84	3.75	94.77	13,523
1964	39.69	55.01	4.78	102.65	14,766
1965	39.69	64.0	3.8	113.65	16,056
Total	39.69	64.0	3.8	113.65	16,056

Source: M.B.B.S. Reports 1964 & 1965.

To understand more fully the role which M.B.B.S. plays in promoting home-ownership and thrift, it is best to discuss the various services which M.B.B.S. offers to the public. These can be classified into (a) Housing Loan Services, (b) Deposit Services, (c) Technical Services, (d) Other activities.

a) Housing Loan Services. This deals with loan-applicants of those contemplating buying houses in housing-estates approved by M.B.B.S. or those building their own houses. 99

1) Procedure of Loan-Application. The applicant has to select his house from a housing-estate approved by M.B.B.S. Next, he completes an application form and sends it together with the fees for loan-processing and property-evaluation.

The amount which an applicant can borrow will depend on the purchase price of the property, its valuation by M.B.B.S. as well as the financial status of the applicant. Briefly the schedule is:

<u>Cost or Selling price</u>	<u>Maximum Loan Obtainable</u>
\$8,000 and below	- 90% of valuation or cost whichever is lower.
\$8,001 - \$12,000	- 80% of valuation or cost whichever is lower.
\$12,000 and below	- 80% of valuation or cost whichever is lower (in Singapore)
\$12,001 - \$20,000	- 75% of valuation or cost whichever is lower.
Above \$20,000	- 66 2/3% of valuation or cost whichever is lower.

The maximum amount of loan which M.B.B.S. will lend at is \$30,000.

This scheme shows that a higher percentage of loan is given to less expensive than expensive units. This practice is in keeping with M.B.B.S.'s policy of encouraging more of the working class people in Malaya to own homes.

The rate of interest charged on all loans is $7\frac{1}{2}\%$ per annum calculated on an annual rest basis. In other words, the rate is calculated on the balance of the loan outstanding as at 31st December of the previous year. This is similar to M.I.D.F.L's calculation of interest charges but in contrast to that of hire purchase finance companies. In this method, the absolute amount of interests paid decreases as the balance outstanding is reduced regularly. In the Mortgage Deed or Memorandum of Charge, a provision is made whereby an increase (or decrease) in the ruling rate, can be applied, only after a three-month notice has been served to the borrower. If the borrower objects to the increase, he can redeem the loan.

The repayment periods, vary with the cost of the houses.

<u>Cost or Selling Price</u>	<u>Maximum Period</u>
\$8,000 and below	20 years
\$8,001 - \$12,000	18 years
Above \$ 12,000	15 years

Payments are spread out monthly and include payment of capital plus interest. In the early stages of the loan repayment period, a substantial portion of the payment constitutes the interest element. But as the capital sum is reduced subsequently, a greater portion of the rental payment goes towards reduction of capital.

It is provided in the agreement, that a borrower can pay more than the agreed sum per instalment, provided he gives M.B.B.S.; a prior notice of three months. In such cases, an interest rebate will be credited to the borrower's account on the amount he has paid as a capital reduction. Alternatively, he could retire the outstanding loan by giving a three month's notice to M.B.B.S.

Processing of the application of the loan is undertaken by M.B.B.S.'s surveyor who submits an Inspection and Valuation Report on the security offered (i.e. the home and the land) as well as an assessment of the borrower's capacity. After approval,

a Certificate of Fitness for Occupation is issued to the borrower and the loan is granted. In the case of a home still under construction (i.e. not in an 'approved' housing-estate), loans are released by instalments, in accordance with the progress in work, as certified by M.B.B.S.'s surveyor.

11) Basic policy-considerations in granting a housing-loan. As already mentioned, M.B.B.S. follows the policy of only financing houses built in housing-estates approved by it. This is because, M.B.B.S. would supervise the construction of the units and are confident of the quality of the houses. This is important because, the houses would form the security of the loans.

Generally, M.B.B.S. prefer to finance houses built within the Town Council or Municipal areas. This is to ensure that drainage, sewerage and transport facilities are available.

Before granting a loan, M.B.B.S. inquires into the financial standing of the borrower. The applicants' income after deducting foreseeable expenses should be sufficient to cover his monthly instalments. As a policy-measure, M.B.B.S. considers a good credit-risk as one in which the monthly income is four times the agreed monthly rentals.

As a policy measure, M.B.B.S. will not lend to a applicant if his age plus the period of repayment of the loan (in years) exceeds sixty. Therefore, a fifty year old man applying for a fifteen year loan, M.B.B.S. would insist on a guarantor for the loan.

M.B.B.S. has a standing agreement with Great Eastern Life Assurance Co. Ltd., whereby a housing loan can be insured for automatic repayment in the event of death. This is by means of a single premium Mortgage Reducing Policy, whereby a borrower can ensure that if he dies before he could retire the loan, the insurance company will settle the loan for him, thus ensuring his family of their own house.

As a policy-measure, M.B.B.S. insists that such a policy must be taken up by aged borrowers. This ensures full payment

of loan to the society as well as ensuring that the home will legally belong to the deceased family.

A fire-policy must be taken up by the borrower, M.B.B.S. can pay for it first, by charging the annual premia to the mortgaged accounts.

(b) Deposit-Schemes Service. This deals mainly with the investing public, who wish to open Fixed Deposit Accounts, or Fixed Term Savings Accounts. The main features of these two schemes are discussed below:

Fixed Deposit Account. The minimum amount required to open an account is \$500 and the maximum is \$100,000. The interest rates payable are:-

- 5% per annum: Withdrawable at 6 month's notice.
- 5 1/4% per annum: Fixed period of 12-35 months.
- 5 1/2% " " : Fixed Period of 3- 5 years.
- 5 3/4% per " : Fixed period of 5-10 years.
- 6% " " : Fixed period of over 10 years.

Some conditions under this scheme are

- A depositor is only entitled to make an, "ordinary withdrawal" once a year at a maximum of \$1,000 per year. This would mean a forfeiture of 1% per annum interest rate, to be calculated on the amount withdrawn from the date the deposit was received.

Fixed Term Savings Account. Under this scheme, a depositor places a fixed sum with M.B.B.S. each month, over a period of years. The total amount is withdrawable only at the end of the agreed period.

The scheme for the fixed sum payable regularly, for a period not less than three years is:-

- A minimum of \$30 per month - 4% interest p.a.
- A minimum of \$1,000 per month - 4% interest p.a.

In cases where a depositor cannot match the regularity of payments monthly, he can apply for a temporary suspension.

⁶ A typical hire purchase finance company offers:
5 1/2% p.a. - 3 months, 6% - 6 months, 6 1/2% - 12 months, 6 1/2% p.a. - 24 months.

Privileges of a depositor in M.B.B.S. A depositor in M.B.B.S. of the two schemes, can obtain better terms when he applies for a housing-loan. The privileges can be categorised into four kinds:

i) A depositor gets a higher maximum loan.

Under the Fixed Deposit Accounts, he is able to receive a loan up to four times of what he has deposited for a period of at least three years.

Under the Fixed Terms Savings Account, if he has continuously deposited for not less than three years; he is eligible for a housing loan up to an amount, the monthly repayment of which (based on a twenty-year period) does not exceed the fixed monthly deposit.

However, the maximum loan granted will not exceed:

- 95% of the cost or selling price of \$8,000 and below.
- 85% of the cost or selling price of \$8,001 - \$15,000
- 80% " " " " " " \$15,000 and over.

The maximum loan is \$40,000⁷.

ii) A depositor can pay off his loan over a twenty-year period, for all types of houses. (A non-depositor enjoy this privilege only in cases where the houses are \$8,000 and below).

iii) A depositor has a wider choice of houses. He can offer any house for security provided it is not subjected to rent-control and completed not less than twelve months before the date of application of his loan.

iv) The depositor can use his deposit-funds (at date of its maturity) for repayment of the loan. Alternatively, he may decide to use his funds to furnish the new house.

⁷ Compare with the usual figures on page 36.

c) Other Services of M.B.B.S. M.B.B.S. also acts as agents for several public and private bodies, in the management of their staff housing schemes. It receives about 1% of the cost of the house as commission. Amongst its clients are the Governments of Malaya and Singapore, the Public Utilities Board, the Employees Provident Fund, the Central Provident Fund, the Board of Currency Commission, Singapore Housing and Development Board, the University of Singapore and Malaya, the National Electricity Board and Esso Standard Malaya.

M.B.B.S. also operate several Employees Guarantee Schemes with the better-known companies in Malaya and Singapore. The employees of such companies are able to receive a higher loan than that advanced normally. This is possible, because the excess is guaranteed by the employers with a supporting cash-deposit (one-third of the excess loan). The liability of the guarantor comes to an end, when the balance of the loan is reduced to a percentage of the Society's normal loan.

Finally, M.B.B.S. undertakes to assist the Employees Provident Fund, to invest any excess funds in any way most secured and profitable.

Organisational Structure of M.B.B.S.

It has always been a policy of M.B.B.S. to bring its services closer to the public in both Malaya and Singapore. Therefore, it has thirty-one Branch offices which operate in particular areas in Malaya and Singapore.

The Head Office in Kuala Lumpur is more concerned with general policy matters, planning, coordination and control of the activities of its Branch offices. The office in Kuala Lumpur also serves as the "Branch Office" for its designated area.

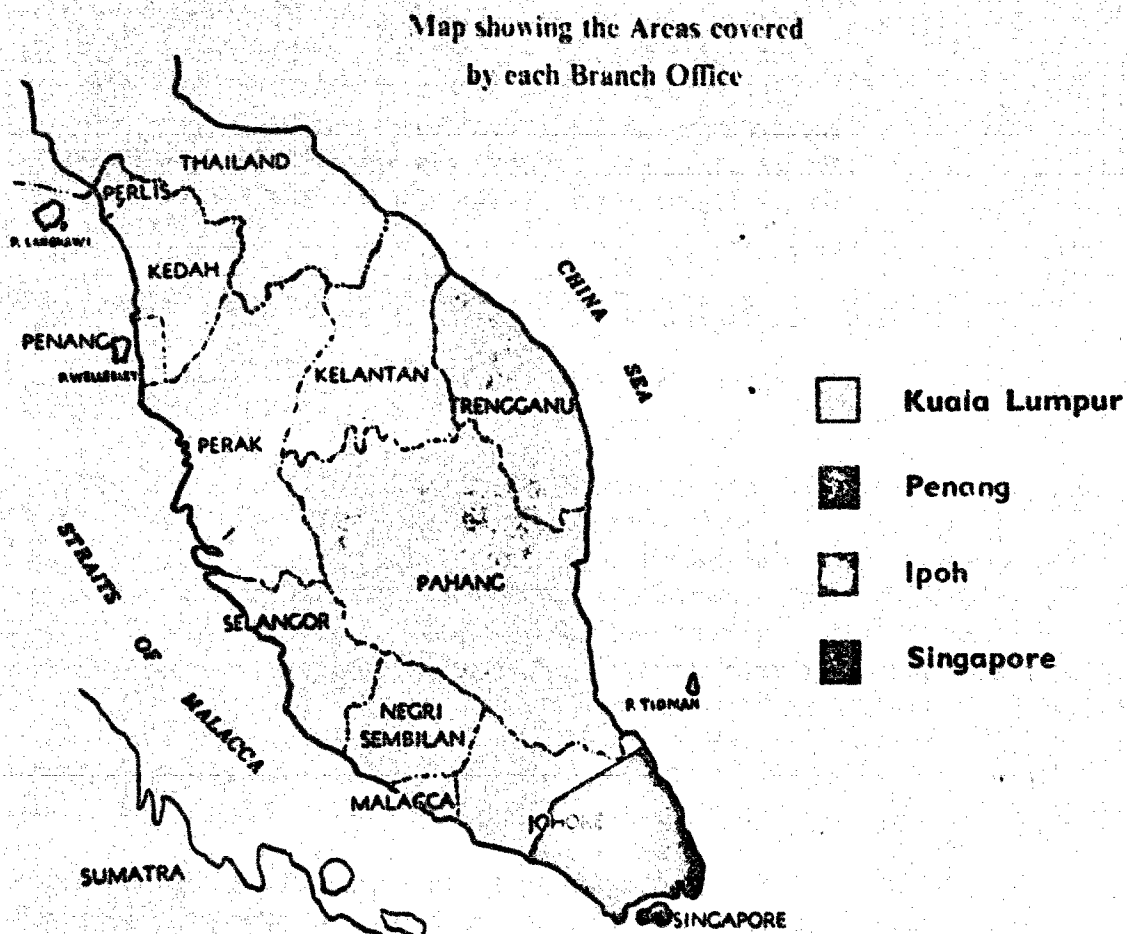
The Branch Office. Each Branch Office is a self-contained unit covering an area of operation. It carries out its daily operations like processing estate development applications, valuation and site supervision, deposit and loan applications etc.

The Branch Manager heads each Branch and he is assisted by an administrative assistant, surveyor and the technical assistant. The total members of

⁸ See Map 2.

MAP 2

AREAS COVERED BY EACH BRANCH OFFICE



Source: M.B.B.S., Annual Report and Statement of Accounts, 1965.

the staff would depend on the volume of business available. The administrative and technical staff work in close cooperation. The former is responsible for general administrative work while the latter is responsible for valuation and supervision of houses and sites.

The main function of the Branch Manager is to act as the link between the public and the M.B.B.S. His responsibilities are to implement the Society's policies as laid down from time to time, maintain operation - efficiency in the Branch and to keep the Head Office informed of any developments in his territory which affect the Society's policies and practices. In such a decentralised organisation as M.B.B.S., efficiency and success depends on uniformity of operation-methods and policies, proper delegation of authority and an effective coordination of efforts.

Some Legal considerations affecting M.B.B.S.'s Operations.

The Companies Act 1965, which was enforced in early 1966 governs the operations of M.B.B.S.

The Trustee Investment Act enables the Society to qualify as an "approved company" which can borrow funds from the Employees Provident Fund. At present, M.B.B.S. is understood to be the only "approved" company in Malaya. This has enabled it to borrow about \$29 million from the Employees Provident Fund which has further agreed to make available a more substantial sum over the next three years. This will make the Employees Provident Fund the largest single lender to M.B.B.S. (a position one held by Hongkong and Shanghai Banking Corporation). With the funds available, M.B.B.S. will be able to expand further its activities and increase its loan releases to borrowers.

The National Land Code has made possible the internal subdivision of buildings having two or more stories, into individual 'parcels' or flats so that separate titles may be used for the flats. Therefore, M.B.B.S. would be able to finance the purchase of flats, which was never practised before. This Land Code would thus enable more lower income class people to own flats of their own.

The Housing Developers (Control and Licensing) Act, 1966 is awaiting enforcement. It aims to provide for the control and licensing of the business of housing developments in Malaya. Briefly, the proposed Act, states that no housing development shall be engaged in except by a company which possesses a licence issued under this Act. In effect, it will curb the malpractices of housing-developers who, for example, take a long time in completing the houses, for which buyers have paid deposits for them. Demand for houses would increase if potential buyers have more

TABLE 2

TABLE SHOWING M.B.B.S. LOAN-RELEASE AND VALUE
OF WORK DONE OF RESIDENTIAL UNITS IN
MALAYA - 1963-1964

	S(000.000)	
	1963	1964
Residential Construction*	112.8	144
M.B.B.S. Loan-Release	21.4	25.2
Percentage of M.B.B.S. Share	18.9%	17.5%

* Value of Construction work = salaries, wages, value of materials used, other expenses, net profits.

It includes Singapore as well.

It excludes shop-houses.

Sources: Survey of Construction, 1963 and 1964 and
M.B.B.S. Report 1965.

confidence in the housing-developers and in this way, M.B.B.S. would be able to increase its operations even more.

Conclusion.

The principle of a building society is to encourage home-ownership and thrift. The principle of home-ownership through thrift is all the more conducive to the economic and social well-being of the people. House-construction in itself may not seem to be an important as say industries. But one must remember that it encourages the growth and expansion of complementary industries e.g. cement, building-materials, iron and steel etc. the numerous component parts that go into building a home. In other words, it increases domestic output and creates employment. It is with an aim to diversify our economy that industrialization has been encouraged. House construction in no small way helps the country to achieve this. At present a notable feature is the emphasis placed on the growth of sound estate developments. This lending policy is due to the fact that by merely accepting individual applications for loans, the rate of house building would not be suitably high for the growing demand of the country.

The immense popularity with M.B.B.S. loans can be partly due to the low rates of interest charged. As a matter of fact, it charges the lowest - $7\frac{1}{2}\%$ as compared to Building Society of Malaya (9% p.a.)

Peninsular Finance Ltd. (9% - 10%) all on a yearly-rest basis. As for the other terms, B.S.M. lends up to only 50% (maximum) of appraised value and period for retirement of balance is between eight to ten years.

It has been estimated that over 60% of residential houses in Petaling Jaya have been financed by M.B.B.S. Compared to the total picture of residential house-construction in Malaya, M.B.B.S. alone accounts for nearly 20% of the total value of work done in 1963 and 1964.¹⁰

⁹Borrows from its largest lender E.P.F. at $6\frac{1}{2}\%$

¹⁰See Table 2.