

Consumer Mortgage Information Search and Information Disclosures Practices in Malaysia

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The objectives of the study are to examine the sources of consumers' mortgage information search, critical mortgage selection criteria and the level of information disclosure practices for housing loan in Malaysia. The housing loan taken by Malaysian household has contributed about 45% of the total household debt. This implies that buying a house is the single, most expensive and major decision that any household has undertaken. Moreover, determining mortgage choices is complex for potential homebuyers as mortgage market in Malaysia is exacerbated by various mortgage packages offer by conventional, Islamic financial institutions and non-financial institutions. Previous studies provided evidence that homebuyers must consider many factors from different information sources before deriving the most desirable mortgage package. Findings from this study revealed that housing developers and mortgage lenders are the most sought after medium by mortgage consumers when they search for mortgage information. The top four criteria perceived as critical by mortgage consumers are loan tenure, monthly repayment amount, interest rate (or profit rate in the case of Islamic financing) and margin of financing. The findings also showed there is fair disclosure of information to mortgage consumers in Malaysia.

JEL Codes: M30, G21

1. Introduction

Housing is our basic need and is considered as the single most important investment of tangible assets any individual would undertake. Buying a house is a major purchase that requires long-term financial commitment. Average home prices typically range from four times of annual household income in developed countries and eight times of annual household income in emerging countries (Ball 2003). This implies that owning a house will consume a large amount of capital. Some consumers or households will self-financed the house, but for those who are unable to self-finance the purchase, they need to seek external sources of financing that will subsequently affect consumer's overall expenditure patterns (Chambers et al. 2008).

Mortgage consumer face various challenges posit by the rapid changes in the financial services industry in the twenty first century. Globalization, deregulation and disintermediation are among the forces, which have resulted in intense competition in the financial industry. The emergence of non-traditional mortgage players has overtaken over the competition from the once dominant building societies. For example, commercial banks and insurance companies recently permitted to offer housing loan products.

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There are various sources for home financing in the financial markets. Nonetheless, home financing from the banks is the most popular and reliable sources sought by homebuyers. Furthermore, the banks aggressively offer home financing since it is considered as a secured financing and at the same time the banks can securitize the loan with the appointed agents which provide liquidity to the banks. Other sources of home financing are provided by non-bank financial institutions such as treasury loan (government loan), Malaysia Building Society Berhad (MBSB) and the most recent players are from insurance companies such as American International Assurance (AIA) and ING (before AIA and ING merged in December 2012).

Employees' Provident Fund (EPF) can be considered as a source of home financing that allow members to withdraw their share of contribution for purchasing houses and/or reducing their outstanding home loans. Cagamas is a National Mortgage Corporation and largely promotes secondary mortgage liquidity facilities. It is not involved in providing loan but only in refinancing or purchase conventional home loan which originate by the financial institutions and selected corporations. The government also issue staff housing loan receivables via Cagamas to further develop the asset backed securities market (Imf 2010).

To summarize, based on Bank Negara Malaysia (BNM) 2012 report and various housing credit institutions report, there are seven major housing credit institution with their respective market share namely commercial banks inclusive of Islamic banks (85.4%), Treasury Housing Division (10.4%), Bank Kerjasama Rakyat (1.1%), Malaysian Building Society (1.7%), Borneo Housing Mortgage Berhad (0.2%), Bank Simpanan Nasional (1.1%) and Sabah Credit Corporation (0.1%). The total housing loan approved in 2011 was RM97.556 billion.

BNM in its Financial Stability Report (Bank Negara Malaysia 2013) mentioned that mortgage consumers in Malaysia have enjoyed various types of financing offer by local and foreign financial institutions. Due to the competitive environment, mortgage lenders seek to outpace their competitors by offering innovative mortgage packages. The mortgage packages offered have to be attractive and marketable to meet the needs of various segment of consumers. However, the complexity of the mortgage products has rendered consumers to conduct extensive information search.

Eskridge (1984) concurred that the dynamic of the mortgage transaction and consumer decision making, rendered home buyers who are seeking mortgage loans are in a very vulnerable position. This is because a majority of them are not very knowledgeable on the subject matter. Thus, there is tendency for potential home buyers to seek advice from agents or other intermediaries such as real estate brokers. However, these parties are more interested in closing sales transactions rather than obtaining the best deal for the home buyers. Hence, information search is deemed as an important component in house purchase decision that comprised of decision in choosing the right house and the right mortgage package.

The main concern is that typical consumers may not be able to comprehend the technicality of the terms and conditions that accompany a mortgage product package. An additional issue relates to mortgage consumer is the information asymmetry in the mortgage market. This issue is profound as borrowers engage in mortgage transaction in only limited number of time in their live compared with mortgage originators who are professionals and well informed about prevailing prices and other terms and conditions

inherent in mortgage markets. This infers to the not-so informed consumers interact with skilled and well-informed professionals.

Hence, understanding consumers' information-search behaviour is critical in enhancing our knowledge on how consumers derived at their mortgage decisions. Previous researches have provided empirical evidence that consumers' information-search behaviour influence consumers in deriving at their mortgage decision (Beatty and Smith 1987; Punj & Staelin 1983; Srinivasan & Ratchford 1991; Urbany, Dickson, and Wilkie 1989).

Generally, past studies have examined consumers' conscious efforts to acquire information for the purpose of obtaining a housing mortgage to reduce uncertainty and risk. (Bazerman 2001) opined that consumer decisions may comprised of both minor and major decisions such as buying a house or a car, dealing with a building contractors, investing for retirement, and so on. The complexities of mortgage products required consumers to conduct information search to help them to make informed decisions regarding the mortgage package offers by various financial institutions. In making an informed mortgage choice that most suit consumer financial profile, there are various parameters that consumers would need to consider. According to Gronhaug (1972), buyer seldom has accessed to full information either about different buying alternatives or about consequences connected with these alternatives. This resulted the buyer to act under uncertainty. Benartzi & Thaler (2002) opined consumers are subjected to certain behavioral bias, including vulnerability to marketing gimmicks that would confused them too when they are being offered many alternatives. This condition could eventually lead to systematic mistakes which could be exploited by some financial providers (Ardic et al. 2011). Therefore, consumers need protection based on inherent information asymmetries as well as power imbalance in markets, which mean that financial service providers have more information about their financial products or services than the mortgage consumers but the information of the products is not well disclose to consumers.

This study will seek to examine consumers mortgage information search patterns in terms of where and who do they obtain information pertaining to mortgage loans. Secondly, this study also aimed to examine the selection criteria by mortgage consumers, and thirdly, mortgage consumers perception of sufficiency of regulations and products information disclosures.

The remaining part of this paper is organized as follow: Section 2, reviews literature on the consumers' mortgage market and followed by Section 3, which describes the methodology employed to provide answers to the research questions. Section 4, provides empirical results and, Section 5, provides the conclusion.

2. Literature Review

2.1 Information Search

External information search can be characterized as consisting of pre-purchase, goal-directed, or problem-solving activities, and continuous, regular, general, or ongoing activities. Most research on external information search has focused on consumers' conscious effort to acquire information for specific purchases, with the general purpose being to reduce uncertainty and risk.

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Several studies have addressed the extent and duration of consumer information search behaviour. This include how much and what sources of information consumers used, and how much time consumers have devoted on each source when they purchase a product or service (e.g. Claxton et al. 1974; Furse et al. 1984; Hauser et al. 1993; McColl-Kennedy & Fetter 1999; Urbany et al. 1996). According to (Beatty & Smith 1987), information sources frequently accessed by consumers include media (e.g. magazines, newspaper, television, radio); individuals (friends, salespeople, experts); sellers (e.g. stores, catalogues); personal hands-on experience (e.g. product trial). Ijevleva & Sloka (2012) found household in Latvia were relying on consultations in a bank branches, advices of loan experts and advices of friends as the most important information sources.

Lee & Hogarth (2000) found borrowers obtained information from two main sources namely lenders (specifically banks, savings and loan and credit union) and real estate professionals. Ariely (2000) opined consumers also utilise information provided by marketers as a basis for their decision making. Thus, it is important for marketers to select channels that are able to deliver the information to consumers. The most interesting and distinguishing elements of information system choices are the level of control a consumer has over that system.

In the United States, information related to mortgage loans is fully available as required under TILA (Truth in Lending Act 1968), RESPA (Real Estate Settlement Procedures Act 1974). However, several researchers pointed out that consumers often lack understanding on the information disclosed in the mortgage market (Lee & Hogarth 1999; Chang & Hanna 1992; Thakor, Beltz & Barefoot 1993).

This lack of understanding stems from the complexity of financial information disclosed as well as the proliferation of product choices available to consumers (Kimball, Frisch & Gregor 1997). For example, many mortgage lenders offer a wide variety of mortgage products including fixed or variable rates or hybrid of the two, varying terms to maturity, and different combinations of rates and points. Due to the fact the details of transactions may differ substantially, the disclosed information may not always permit meaningful comparisons. The language used by the creditor is also difficult to understand for many consumers (Chang & Hanna 1992). Only a few people understand the Annual Percentage Rate (Lee & Hogarth 1999).

A survey sponsored by the Mortgage Bankers Association of America (MBA) in 1999 indicated that respondents overwhelmingly cited using the phone as their favourite source to obtain information on mortgages and followed by personal contact (Duncan 1999). The survey shows that friends and family members were the most-often cited personal contact source of information. This is followed by sourcing information from advertisements and real estate professionals. Mortgage providers' opinion was also cited as a source of information. The study also reveals the type of information consumers were seeking. The results show four-fifths shopped for "interest rates", 23% asked about fees, 8% asked about the type of loan and payment schedule, and 3% asked about documentation requirements. Half of respondents shopped with three or more lenders, while less than a third shopped with only one lender. Half of the respondents contacted mortgage brokers and one third contacted mortgage lenders.

Based on the previous study on mortgage markets have revealed inconsistency in choosing the mortgage information source by mortgage borrowers. In the context of Malaysia, there is little information available due to the limited studies to explore how

Malaysia's homebuyers access the mortgage loan information. This provided motivation to conduct this study.

2.2 Disclosures and Regulations

According to Ardic, et. al (2011), consumer protection refers to any regulations and laws that are required to ensure fair interaction between financial service providers and consumers. For example, consumers need protection on the basis of inherent information asymmetries as well as power imbalance in markets. Financial service providers have more information about their financial products or services than the mortgage consumers.

Furthermore, Ardic, *et.al* (2011) highlighted an effective consumer protection framework for financial service providers comprised of three complementary aspects. The first aspect covers laws and regulations that govern the relations between service providers and users and at the same time ensure fairness, transparency and recourse rights. The second aspect discusses the framework as an effective enforcement mechanism including dispute resolution and finally, promoting financial literacy and increase capabilities among financial users in the process of managing their financing.

Ardic, *et.al* (2011) revealed that Malaysia had two categories of consumer protection namely; general consumer protection law without explicit reference to financial services (Consumer Protection Act 1999) and, other types of consumer protection regulation and guidelines that have been issued by Bank Negara Malaysia.

Abdul Rahman (2007) stated the increasing cost of living in Malaysia has promoted more money borrowing activities between two major income groups namely; lower and middle class society. It has become a necessity to impose new safeguards or enhanced the existing safeguards for the transactions and at the same time become a tool to protect consumers. (Abdul Rahman 2007) has further discussed in details the development of three types of consumer credit laws in Malaysia that include hire purchase, money lending and pawn broking laws. Furthermore, he found consumer credit laws is not only governed by different statues and regulations, but also supervised by different ministries and departments. He postulates these inconsistencies could create problems. In addition, Yap (2007) also highlighted the issues on different authorities that administered the consumer credit laws in Malaysia.

Two important regulations that regulates banking and financial institutions in Malaysia are BAFIA 1989 and Islamic Banking Acts 1983; both acts were repealed as the Financial Services Act 2013 and Islamic Financial Services Act 2013 came into act. Nevertheless, these regulations generally provide protection for depositors and not the credit consumers (loan borrowers). For credit consumers, terms such as interest rate on loan is pegged at BLR plus spread of 2.5%. Other terms and conditions imposed or binded both parties spelled out via loan agreement that has been agreed by both parties (Yap 2007).

In the United Kingdom, the Unfair Contract Terms Act 1977, regarded terms as unfair if, contrary to the requirement of good faith, they cause a significant imbalance in the parties rights and obligations to the detriment of the consumers. Hence, empowering consumers by allowing them to compare financial products or services offered by financial providers is important. Disclosures would assists the consumers and encourage them to shop for products and services when information is useful and comprehensible, and provided

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before any decisions are being made (Eskridge 1984). According to (Barr et al. 2008), information in credit markets is imperfect as firms lack incentives to reveal all information.

Information helps consumers to negotiate better and leads to a competitive and a more efficient market. Therefore, disclosure regulation is required and seems to be useful mode of regulation. The effectiveness of disclosure regulation could be significantly increased and unintended negative effects reduced by having sophisticated regulatory regime.

However, the need for information disclosure for consumers is subjective. Some consumers required pre-sale disclosure (at time of advertising or promoting a service), some may need account opening disclosure (at the time of signing a contract) and other consumers might require periodic disclosure (the contractual relationship disclosure through regular statements and occasional when terms of service change) (Ardic et al. 2011). Another type of disclosure is known as public oriented disclosure that disclosed information to market, general public, media and regulators. According to Barr et al. (2008), information disclosure improves consumer's ability to shop for products or services and enhance their decision making on their choice of mortgage.

In the United States, two federal laws were enacted to help consumers to be informed of choices through mandatory disclosure in the United States, they are the Truth in Lending Act 1968 (TILA) and the Real Estate Settlement Procedures Act 1974 (RESPA) that mandated information disclosure related to home mortgage loans. The main objectives of the statues are to aid consumers in making informed credit decisions and to promote price competition by facilitating consumers' comparison-shopping (Lee & Hogarth 2000).

Truth in Lending Act 1968 (TILA) was designed to protect consumers in credit transactions by requiring clear disclosure of key terms of the lending arrangement and all costs. Five items in particular deemed important that failure to give any one of them would allow the borrower the right to rescind the transaction when a home is pledge as security. The items are the finance charge, annual percentage rate (APR), amount financed, total of payments, and the schedule of payments. Borrowers frequently use the APR as comparison metric in the loan selection phase; unfortunately, the disclosure falls short of its intended purpose (Mcclatchey & Torre 2008). Similarly, the Real Estate Settlement Procedures Act 1974 requires that the nature and costs of real estate settlements to be disclosed to borrowers. It aims to protect borrowers against abusive practices such as kickbacks and limits the usage of escrow accounts.

Despite the enacted law, Lacko & Pappalardo (2010) suggested that government mandated consumer mortgage disclosures has failed to convey the mortgage terms to borrowers among financial institutions. This was neither due to cognitive limitations nor the complexity of new mortgage instruments, but rather poorly designed disclosures. Interestingly, it was reported that disclosure documents failed to include key loan information, and information disclosed was often confusing and misleading. The evidence of problems with mandated disclosures exist across a range of consumers and loan types. Prime and subprime borrowers were equally confused.

Malaysian has yet to have enacted any consumer financial protection acts particularly to protect housing loan borrowers. However, some efforts have been initiated to address this issue in favour of credit consumers. Thus, Malaysian government has recommended on measures to increase product-specific, institutional transparency and move towards full disclosure in its Financial Sector Master Plan 2001-2010 (pp57).

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Bank Negara Malaysia has issued guidelines that focus on reference, lending and deposit rates in banking institutions. Malaysia financial institutions need to comply with requirements on transparency and disclosure (BNM/GL 001-15, pp 5). Besides, Bank Negara Malaysia had issued another guideline known as Product Transparency and Disclosure. The introduction of these guidelines by banking authority signifies the importance of adequate and effective disclosure of information to consumers in particular, and to financial service providers in general.

The information disclosure requirements aimed to assist consumers in making decision based on meaningful and timely information disclosed to them. The transparency and disclosures guidelines served as a consumer's protection tools. Consumers are able to understand the complex nature of financial information and its related transactions via information provided to them. Consumers could assess product suitability and comparing the product choices based on the available information. Therefore, it is imperative that information disclosed to consumers ought to be accurate, meaningful, relevant and easy to comprehend by consumers.

In tandem with the above, in year 2012, Malaysian banks have adopted product disclosure sheets and issued to each housing loan consumers when they apply for mortgage loans. Every new housing loan consumers are required to agree to all the information provided in this sheet and endorsed it by signing the documents.

3. The Data and Methodology

The population for this study comprised of house owners who have housing mortgage. A sampling frame of 7556 house owners who owned houses from housing projects completed between years 2007 to 2011, located in Kota Setar district obtained from the Alor Setar City Council (Majlis Bandaraya Alor Setar). The sample comprised of mortgage loan borrowers from Kota Setar District. Simple random sampling method was used to select the respondent. The sample size number 370 households were derived based on Morgan & Krejcie (1970). A total of 370 survey questionnaires were distributed and 295 were returned. This is equivalent to a response rate of 80%.

Questionnaires comprised of three main sections. The First Section comprised of basic housing loan information such as background of housing loan providers, types of property purchased, types of loan taken and extent of information search. The Second Section aimed to identify borrower patronage behaviour. The questions mainly asked about loan selection criteria, information disclosure and after sales service. Answers were based on Likert scale ranging from "1" The Most Not Important to "5" The Most Important. The Third Section consists of the background and demographic information about loan borrowers.

Since some variables were specific to this study, a new set of instrument was developed. In the process of drafting the instrument, input and information was solicited from bankers, legal advisors, and banking school academicians. The experts provided input and suggestions in the areas on the loan terms and conditions, and issues pertinent to the housing loan.

Pilot study was conducted whereby 50 questionnaires were distributed and 30 questionnaires returned. Reliability tests conducted to derive Cronbach alpha values to ascertain the reliability of the items (Nunnally 1978). Table 1 shows the Cronbach's Alpha

values for all variables in this study. The results provide sufficient confidence for the data to be use for further analysis.

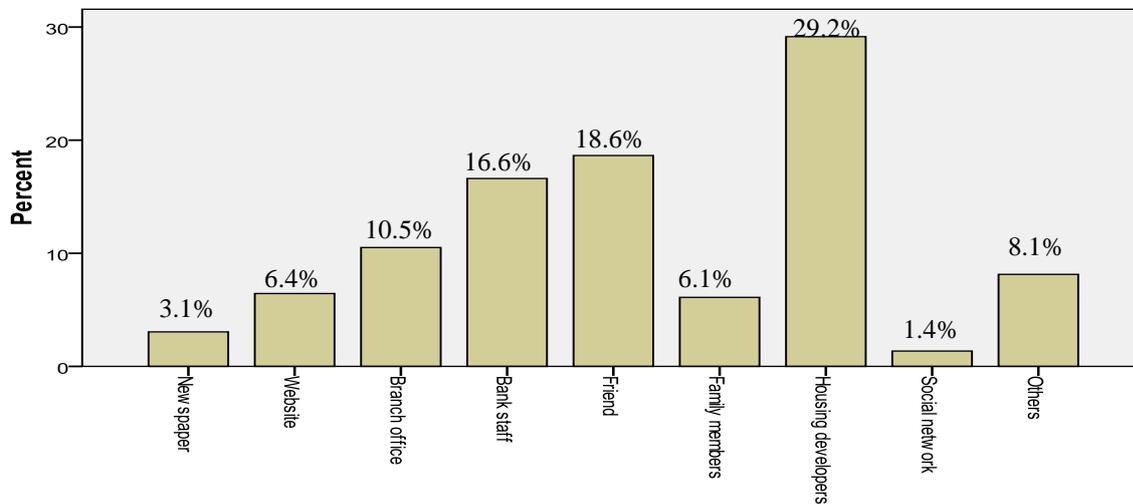
Table 1: Reliability Test

Variable Item	Cronbach's Alpha
Housing loan selection criteria	0.862
Housing loan information disclosures	0.960
Housing loan after sales service	0.917

4. Results and Discussions

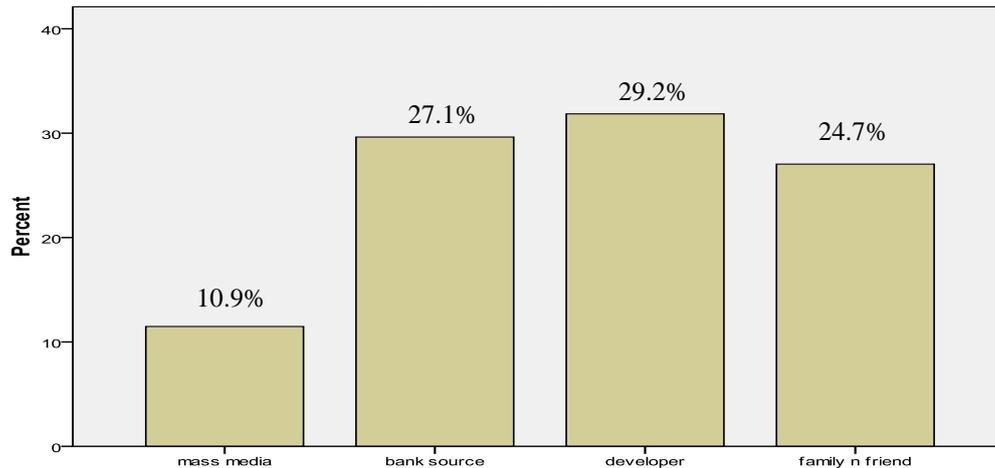
4.1 Sources of Information

Figure 1: Sources of Housing Loan Information



The results in Figure 1 revealed the sources of information that consumers rely on when they conduct information search for housing loan package. The top three most important sources of information that customers seek were from housing developer (29.2%), followed by friends (18.6%), and from bank mobile sales staff (16.6%). Other sources of information include walk-in to branch office (10.5%), loan provider’s websites (6.4%), and advice from family members (6.1%), newspaper (3.1%), and social networks (1.4%). The remaining sources cited were colleagues, government Treasury Housing Loan Division and, real estate agents.

Figure 2: Top Four Sources of Information



The sources for housing loan information in Figure 1 were transformed and re-grouped into four main categories (Figure 2). Topping the list is information source from housing developer (29.2%), followed by sources from the mortgage lenders (or banks) (27.1%), advice from family members and friends (24.7%), and mass media (10.9%). This results slightly differed from Ijevleva & Sloka (2012) who found major sources of information by mortgage borrowers were consultation with staff from banks, seeking advice from loan experts and seeking advice from friends.

Results from Figure 1 and 2 revealed that Malaysian mortgage consumers obtained mortgage loan information from the housing developers whom they bought their houses. The results could indicate a lack of regulatory structure whereby housing developers served as loan originators compared to developed market where qualified mortgage brokers are mortgage loan originators. The finding shows the prevalence of such practices in the Malaysian construction industry. This is back by qualitative observations during house ownership campaigns or road shows where housing developers would offer real estate properties with mortgage packages to potential house buyers.

Housing developers have prior arrangement with selected banks that formed a panel of preferred banks to provide mortgage financing for customers. This is evident as quoted from a major housing developer, SP Setia website stated,

“a panel of bankers have been appointed to provide loans to those who qualify, but the final decision lies with you as you are free to choose any bank/finance company of your choice”.

Customers would choose one of the financiers from the list of panel banks depending on the type of loan packages that suit their financial profile. However, it is unsure if housing developers were incentivised in any way from the mortgage lenders. Developers are providing value-added service and convenience to homebuyers. This collaboration could foster better relationship between the housing developers and the banks, which is crucial for the housing developers who have their HDA (Housing Developer Account) account maintained with banks.

Due to the lack of regulatory structure and monitoring for mortgage market intermediaries as compared to those of the developed countries, individuals can provide mortgage advice

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without any restrictions. Consumers do not have appropriate venue to seek independent advice from qualified mortgage brokers. Hence, consumers perceive housing developers' recommendation as reliable and impartial.

Developers' main role is to act as a bridge to banks and potential homebuyers by disseminating the housing loan information. The information provided either through developers website or through developers' staff. It contains the documents required by the bank and sequence loan process as appear in Appendix 3.

The information provided will guide borrowers for a complete housing loan process. Developers will have advantages in this regards, whereby when the buyers aware of the documents required, they would make early preparation that will improve the turnaround time for loan processing.

Consequently, it leads to faster loan disbursement to developers. Developers may urge the banks for faster loan disbursement. This would improve the developers' cash inflow. Faster cash inflow is important for developers as they incur internal capital expenditure for housing project development. The prompt disbursement carried out according to schedule and, sometimes ahead of schedule that help to improve the developers' cash flow. In some circumstance, the cash inflow would be utilized by housing developer to embark on next the housing project.

Developers will advise potential house buyers regarding the most suitable mortgage package based on certain criteria such as proven history of higher approval rate and faster approval speed. Developers and consumers normally avoid from dealing with fussy banks as they it will cause delay, as consumers ought to repeat the new mortgage application process and it is time consuming.

Despite the assistance and convenience offered by developers to potential homebuyers to ease stress in getting the right mortgage package, consumers must be aware about any promotion strategies employed by developers or the banks. The offers might be worthwhile in the short term, but not long-term basis.

The second sources information sought is from the mortgage lenders or bank sources (27.1%), which comprises of banking staff (16.6%), and followed by bank branch offices (10.5%). The least favourite source that consumer used to obtain mortgage loan information was from the mass media (10.9%). Mass media is referring to newspapers (3.1%), websites (6.4%), and social networking sites (1.4%). Mass media is used by banks to promote their mortgage products. The promotion is referring to the advertising, sales promotion and marketing activities organized by mortgage lenders aimed at increasing sales turnover.

Since promotion was stated as the least important selection criteria (Table 2) with the lowest mean score of 2.61 (Likert Scale 1 to 5). Hence, the findings suggest mortgage lenders to engage appropriate promotion strategies according to the targeted sources and its intended objectives. The result suggests that promotion budget should be utilized with cautions, as an increase in promotion spending to promote mortgage loan will not necessarily yield the desired results.

Table 2: Housing Loan Search Criteria

Criteria	Mean
Loan tenure	4.38
Monthly instalment amount	4.32
Interest rate	4.28
Margin of financing	4.11
Repayment flexibility	3.99
Loan package	3.92
Loan providers' reputation	3.87
Promotions (sales and advertising)	2.61

Table 2 shows the top four important criteria consumers consider when engage in mortgage shopping phase are; loan tenure (mean=4.38), monthly instalment amount (mean=4.32), interest rate (mean=4.28), and margin of financing (4.11). These criteria are main considerations which consumers would consider pertaining to their mortgage namely; how long is the loan payment duration; how much is the monthly repayment amount (which indicate the affordability); what is the rate of interest charge (profit rate in the case of Islamic financing); and the quantum of loan amount (how much can they borrow).

In comparison to a study in South-western region in Nigeria, the most three significant criteria that influence the borrower choice of mortgage are; interest rate, income of borrowers and, the title document or collateral (Ojo & Igalo 2008). Other studies have documented that influence borrowers in determining their loan choice were monthly installment (Miles 2004). While most of the mortgage consumers will take into considerations on several aspects of the terms and features of mortgage such as interest rate, type of loan (fixed or variable rate) and processing fee payment (Lee & Hogarth 2000).

In similar vein, Devlin (2002) found that consumers in UK put their first priority in choosing their home loan institutions based on professional advice and closely followed by interest rate. Additionally their loan choices differed according to demographic factors such as gender, class, household income, educational attainment, ethnicity and financial maturity.

4.2 Information Disclosures

The results from this study indicate there is fair disclosure of information to consumers as the scores are above the mean score of 2.5 (Likert scale 1 to 5) as shown in Table 3.

Table 3: Information Disclosures

Areas of disclosure	Mean
Loan repayment statement	3.84
Legal advisor use plain language	3.61
Contract details	3.42

Three major area of disclosures are examined which include loan repayment statement (mean=3.84), legal advisor use of plain language (mean=3.61) and the mortgage contract details (mean=3.42). The results inferred that mortgage lenders have implemented the disclosure requirements mandated and aligned with the Financial Stability and Payment

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Systems Report (BNM 2009) guidelines that promote the use of simple language when drafting contracts, agreements and policy documents for mortgage consumers.

Brix & Mckee (2010) argued that loan products disclosure can help to reduce borrowing costs for consumers whereby consumers need not seek services from professionals. Ardic, et.al (2011) opined the need to address the issue of non-standardize disclosure across industry to a standardized format of information disclosed to consumers. This often includes the use of plain language. In the case of Malaysia, banks have also provided information disclosure in national language namely Malay Language other than English language.

Malaysia has yet to enact any consumer financial protection acts particularly protecting the interest of mortgage loan borrowers. However, effort has been initiated to address this issue in favour of credit consumers. Malaysian government has recommended to increase product-specific, institutional transparency and move towards full information disclosure in its Financial Sector Master Plan 2001-2010.

Furthermore, Bank Negara Malaysia has provided guidelines that focus on reference rates, lending rate and deposit rates for banking institutions and introduced a policy known as requirements on transparency and disclosure. Other guidelines issued by Bank Negara Malaysia include Guidelines on Product Transparency and Disclosure. The reason to introduce these guidelines is due to the importance of providing adequate and effective disclosure to financial service providers in general and specifically the mortgage consumers. These guidelines serve to raise the disclosure requirements for retail financial products that aim to support informed decision making by consumers through meaningful and timely disclosures.

Nevertheless, the transparency and disclosure merely recognized as a consumer protection tool. The purpose of this consumer protection is to ensure consumers are able to understand the information provided in helping them to assess product suitability and comparing product choices. Therefore, it is important for information to be simple, meaningful and relevant. This could be achieved by ensuring the information provided is clear and easy to understand by consumers. Subsequently, in 2012, BNM have instructed financial institutions to adopt product disclosure sheets and issued to each housing loan consumers when they apply for mortgage loans. Every new housing loan consumer must agree to all the information provided in the disclosure sheet and endorsing their acknowledgement by signing the documents.

The disclosure effort has been continuously promoted. BNM have emphasised on consumers basic rights for fair treatment to the following:

1. Access to adequate information for decision making.
2. Proper advice on suitability of financial products.
3. Honest and ethical dealings
4. Prompt and fair settlement of claims or disputes.
5. Redress avenue for resolving disputes with insurers.

The above rights aim to provide efficient financial management by service providers to ensure their obligations to consumers are met.

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Despite all the effort in ensuring transparency via disclosures practices, there is still debate on whether information disclosures have benefited the consumers at large. Consumer behaviourists question the effectiveness of financial disclosure (Burgess et al. 2001). Bone (2008) highlighted that most common remedy in the financial services industry is information disclosure; however, it is unlikely to directly improve consumer welfare.

Furthermore, policy makers and consumer advocates suggested that mortgage service providers are prone to predatory practices that had a negative impact on consumers' financial well-being. Gabaix & Laibson (2004) highlighted that effort to educate consumers to enable them make informed decisions could generate large welfare gains. However, consumer behaviourists questioned the effectiveness of financial disclosures and empirical evidence shows information disclosures often fail to improve consumers' comprehension of the information disclosed (Burgess, Shank & Borgia 2001).

The information disclosures by the loan providers may not include disclosures of other direct and indirect costs. Apart from the disclosures on the mortgage loan, other direct and indirect costs were also concern to the consumers. The indirect cost is invisible particularly to most homebuyers. To enhance the homebuyers knowledge on cost incurred as well as to protect them from being misled by irresponsible parties, BNM has established a consumers' education website known as "Banking info" (www.bankinginfo.com.my). Information such as fees and charges i.e. stamp duties, disbursement and processing fees made available. Besides this website, potential homebuyers can browse individual bank's website to identify these costs incurred. In short, there are various direct and indirect costs incurred for housing investment in Malaysia. The fees and charges for loan application presented in Table 4.

Table 4: Loan Application Fees and Charges

Type	Rate	
Stamp Duties <ul style="list-style-type: none"> • Sale & Purchase Agreement • Loan Agreement • Transfer of Title (for completed properties only) 	1.0% for the 1st RM100,000 0.5% for the next RM4,900,000 0.5% of the loan amount or RM5 per RM1,000 1% for the first RM100,000 2% for the next RM400,000	
Disbursement Fees Include fees for registration of charge, land search and bankruptcy search	These fees vary by state, land office and type of property. For instance, in Selangor and Wilayah Persekutuan, the fees could range from RM300 to RM700.	
Processing Fees Onetime fee charged by the financial institution for loan processing	<u>Rate (RM)</u> 50 100 200	<u>Range (RM)</u> up to 30,000 30,001 – 100,000 100,000 above

(Source: <http://www.bankinginfo.com.my>)

5. Conclusions

The study found that in seeking mortgage information, Malaysian mortgage consumers depend on housing developers to provide loan information and services. This finding

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added a unique factor as compared to previous studies, which cite main information sources are from family members, friends and real estate professionals (Duncan 1999); consultation with banks' staff, advices of loan experts and advices from friends (Ijevleva & Sloka 2012).

In Malaysia, the practice of housing developers providing this value-added service help consumers as they are required to deal with less parties in the process of obtaining mortgage loan. Obtaining mortgage loan information from housing developers is the most convenient way for homebuyers. Housing developers are perceived as one of the most trusted and reliable source of information providers due to their close relationship with mortgage lenders.

However, this practice has several limitations that may prejudice consumers' rights. Consumers may have limited choices on the best mortgage lenders as the developers may only provide a few choices in their list of approved financiers. Furthermore, there is tendency that consumers obtain outdated information or misleading information, which will lead to making wrong decisions. In the worst scenario, developers might take advantage on homebuyers should there be any undisclosed incentives provided the financiers that could benefit the consumers.

Mortgage products and services are complex and difficult to comprehend by a majority of consumers. Consumers often need to make extensive information search to select their mortgage choice. Information such as loan tenure, monthly repayment amount, interest rate (or profit rate), and margin of financing are important considerations by the consumers when deciding the loan to be taken.

Loan tenure was found to be the most important criteria by mortgagees to decide the choice of financiers. This finding contradicts the previous study, which cited "interest rate" was the most important factor. Besides the entire loan criteria selected in this study, the other criteria, i.e. "cost" seemed important and need to be investigate in future study, in particularly, indirect cost that is invisible to innocent homebuyers.

The indirect costs including fees and miscellaneous charges such as stamp duties, disbursement fees, processing fees, insurance/Takaful (MRTA/MRTT, Fire/House Owner Insurance/Home Building Takaful), building maintenance fees, quite rent and assessment fees, utility deposit, delays and penalties, burdened the consumers.

Even though financial institutions have adopted product disclosure guidelines and each consumer need to comply when they seek for mortgage loans. Ultimately financial institutions would decide on approval of loans based on consumers eligibilityof and fulfilment of loan requirements. Hence, the disclosures of imformation that requires every new housing loan consumer to agree to all the information provided and endorsing it by signing the documents will avoid delayed in loan approval. However, the information was not disclosed in sufficient detailed and often, difficult to comprehen by consumers. This concurred by Bone (2008) that information disclosure is unlikely to have direct impact on improving consumer welfare. This raises the issue of "qualities advise and consultation" given by the financier's mortgage consultants. In addition, questions arise whether honest and ethical dealings exist during transactions due to the principal-agent relationship between the financier and its appointed mortgage consultants.

Despite the perception that disclosures guidelines fairly well implemented, there was room for improvement. For example, the disclosure documents drafted as part of the agreement had discharged mortgage lenders from its liability whenever disputes arise. As highlighted by Burgess, Hank & Borgia (2001), information disclosed to consumers too often failed to improve their comprehension or lessen their confusion on their choice of financial products and services.

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Appendix 1: Questionnaires

Bahagian I : Maklumat pinjaman perumahan/ Housing loan information

Bahagian ini merangkumi beberapa soalan mengenai pinjaman perumahan anda. Sila tandakan (✓) bagi jawapan yang bersesuaian atau isikan ruangan kosong jika berkaitan.

This section enquires information about your housing loan. Please tick (✓) the appropriate answer or fill in the blank where necessary.

1. Sila nyatakan pembiaya pinjaman perumahan anda (pinjaman terkini jika lebih daripada satu pinjaman).
Please state your housing loan provider (Latest loan provider if you have more than one housing loan)

Affin Bank	¹ Islamic		Maybank	²³ Islamic	
	² Conventional			²⁴ Conventional	
Alliance Bank	³ Islamic		Public Bank	²⁵ Islamic	
	⁴ Conventional			²⁶ Conventional	
Ambank	⁵ Islamic		RHB Bank	²⁷ Islamic	
	⁶ Conventional			²⁸ Conventional	
Agro Bank	⁷ Islamic		StandChart	²⁹ Islamic	
	⁸ Conventional			³⁰ Conventional	
BSN	⁹ Islamic		OCBC Bank	³¹ Islamic	
	¹⁰ Conventional			³² Conventional	
Bank Rakyat	¹¹ Islamic		UOB Bank	³³ Islamic	
	¹² Conventional			³⁴ Conventional	
CIMB Bank	¹³ Islamic		Citibank	³⁵ Islamic	
	¹⁴ Conventional			³⁶ Conventional	
EON Bank	¹⁵ Islamic		Bank Islam	³⁷ Islamic	
	¹⁶ Conventional		Bank Muamalat	³⁸ Islamic	
Hong Leong Bank	¹⁷ Islamic		Al-Rajhi Bank	³⁹ Islamic	
	¹⁸ Conventional				
HSBC Bank	¹⁹ Islamic		Kuwait Finance House	⁴⁰ Islamic	
	²⁰ Conventional				
Malaysian Building Society (MBSB)	²¹ Islamic		⁴¹ Others. Please specify _____		
	²² Conventional				

2. Berapakah margin pembiayaan bagi pinjaman tersebut?
How much is the loan margin of financing?

Sila nyatakan / Please state _____ %

3. Berapa lama tempoh bayaran balik pinjaman perumahan?
How long is your housing loan repayment duration?

1	Kurang dari 5 tahun / 5 years or less
2	6 hingga 10 tahun / 6 to 10 years
3	11 hingga 15 tahun / 11 to 15 years
4	16 hingga 20 tahun / 16 to 20 years

5	21 hingga 25 tahun / 21 to 25 years
6	26 hingga 30 tahun / 26 to 30 years
7	Pinjaman dua generasi / Two generations Loan

4. Apakah jenis kaedah pembayaran balik pinjaman perumahan anda?
What is the type of repayment method of your housing loan?

1	Pembayaran berperingkat / Graduated repayment
2	Pembayaran tetap / Fixed repayment
3	Pembayaran fleksibel / Flexible repayment

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5. Apakah jenis kadar faedah / margin keuntungan pinjaman perumahan anda?
What is the type of interest rate of your housing loan?

1	Kadar tetap / <i>Fixed rate</i>
2	Kadar berubah / <i>Variable rate</i>
3	Kadar kombinasi / <i>Combination rate</i>

6. Apakah jenis pakej pinjaman perumahan anda?
What is the type of your housing loan package?

1	Pinjaman perumahan sahaja / <i>Housing loan only</i>
2	Overdraf sahaja / <i>Overdraft only</i>
3	Gabungan pinjaman perumahan dan overdraf / <i>Housing loan plus overdraft</i>

7. Dari mana anda memperolehi maklumat berkaitan pinjaman perumahan anda?
Where did you obtain your housing loan information?

1	Surat khabar / <i>Newspaper</i>
2	Laman web / <i>Website</i>
3	Pejabat cawangan / <i>Branch office</i>
4	Staf bank / <i>Bank staff</i>
5	Rakan / <i>Friend</i>

6	Ahli keluarga / <i>Family members</i>
7	Pemaju perumahan / <i>Housing developer</i>
8	Jaringan sosial / <i>Social network</i> (<i>facebook, twitter</i>)
9	Lain-lain, sila nyatakan / <i>Others, please state</i> [_____]

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Bahagian II : Gelagat peminjam / Borrower patronage behavior

Sila nyatakan sejauhmana tahap kepentingan setiap kriteria di bawah. Bulatkan hanya satu jawapan bagi setiap pernyataan.
Please indicate how important each of the following criteria. Please circle one answer only for each statement.

Ciri-ciri Pemilihan / Selection Criteria

14.	Sejauh manakah kepentingan faktor ini dalam membantu anda membuat pemilihan pinjaman perumahan? <i>How important are these factors in helping you to choose your housing loan?</i>	Tidak Penting Not Important					Sangat Penting Very Important				
		1	2	3	4	5	1	2	3	4	5
(a)	Kadar faedah (Konvensional) / Margin keuntungan (Islamik) <i>Interest rate (Conventional) / Profit margin (Islamic)</i>	1	2	3	4	5					
(b)	Bayaran ansuran bulanan <i>Monthly installment amount</i>	1	2	3	4	5					
(c)	Tempoh pinjaman <i>Duration of the loan</i>	1	2	3	4	5					
(d)	Margin pembiayaan <i>Margin of financing</i>	1	2	3	4	5					
(e)	Pakej pinjaman perumahan dengan kos pemindahan percuma <i>Packaged housing loan with free moving cost</i>	1	2	3	4	5					
(f)	Fleksibiliti pembayaran balik <i>Repayment flexibility</i>	1	2	3	4	5					
(g)	Promosi oleh pembiaya pinjaman perumahan <i>Promotion by housing loan provider</i>	1	2	3	4	5					
(h)	Reputasi pembiaya pinjaman perumahan <i>Reputation of the housing loan provider</i>	1	2	3	4	5					

15. Sila nyatakan kepentingan perkara berikut menurut turutan (a) hingga (f):

Rank the following according to its importance from (a) to (f):

(a) **paling penting** / most important → (b) → (c) → (d) → (e) → (f) **kurang penting** / least important

- [] Reputasi bank / Bank reputation
- [] Kadar faedah / Interest rate/Profit Margin
- [] Jangka masa pinjaman / Loan duration
- [] Margin pembiayaan / Margin of financing
- [] Fleksibiliti pembayaran / Payment flexibility
- [] Jumlah ansuran bulanan / monthly installment amount
- [] Promosi / Promotions

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Pendedahan Maklumat / Information Disclosure

Sila nyatakan sejauhmana tahap persetujuan anda terhadap setiap pernyataan di bawah. <i>Please indicate to what extent you agree or disagree with the following statements.</i>		Strongly disagree				Strongly agree
16.	Penasihat Undang-undang (peguam) menggunakan bahasa yang mudah untuk menjelaskan tentang kontrak pinjaman perumahan. <i>Legal advisor (lawyer) uses plain language to explain about the housing loan contract.</i>	1	2	3	4	5
17.	Pembiaya pinjaman perumahan memberikan saya jadual pembayaran balik pinjaman. <i>The housing loan provider provides me the loan repayment statement.</i>	1	2	3	4	5
18.	Pembiaya pinjaman perumahan telah memaklumkan saya tentang: <i>The housing loan provider informed me about:</i>					
	(a) Terma dan syarat bagi notis penyelesaian awal. <i>Terms and conditions for early settlement notice.</i>	1	2	3	4	5
	(b) Menyemak rekod transaksi pinjaman saya dari CTOS dan CCRIS. <i>Seeking my credit history from CTOS and CCRIS.</i>	1	2	3	4	5
	(c) Penalti bagi penyelesaian awal. <i>Penalty for early settlement.</i>	1	2	3	4	5
	(d) Tempoh 'lock-in' minimum <i>Minimum lock-in period.</i>	1	2	3	4	5
	(e) Kos pemindahan (Yuran guaman dan penilaian) <i>Moving cost (valuation and legal fees).</i>	1	2	3	4	5
	(f) Penalti bayaran lewat. <i>Late payment penalty.</i>	1	2	3	4	5
	(g) Keperluan insurans pinjaman perumahan. <i>Housing loan insurance requirements.</i>	1	2	3	4	5
	(g) Caj-caj lain. <i>Miscellaneous charges.</i>	1	2	3	4	5
19.	Pembiaya pinjaman perumahan memaklumkan saya tentang: <i>The housing loan provider informed me about:</i>					
	(a) Bagaimana untuk melakukan pembayaran awal sebahagian pinjaman supaya saya boleh menjimatkan pembayaran faedah/ keuntungan bank. <i>How to make partial prepayment so that I can save on the interest payment / profit margin.</i>	1	2	3	4	5
	(b) Dimanakah saya boleh mengemukakan aduan sekiranya terdapat perselisihan di antara saya dan pembiaya pinjaman perumahan. <i>Where I can lodge complaint if there are disputes between me and housing loan provider.</i>	1	2	3	4	5
	(c) Hak saya untuk mendapat segala maklumat. <i>My right to have access to all information that would affect my borrowing decision.</i>	1	2	3	4	5
	(d) Hak saya untuk dilayan secara professional, bersopan dan tanpa prasangka. <i>My right to be treated professionally, courteously and without prejudice.</i>	1	2	3	4	5
	(e) Hak saya untuk diajak berunding berkaitan sebarang perubahan terma dan syarat pinjaman saya. <i>My right to be consulted on changes to the terms and conditions of my loan.</i>	1	2	3	4	5
	(f) Hak saya untuk mendapatkan maklumat yang tepat secara berkala. <i>My right to have accurate information on a regular basis.</i>	1	2	3	4	5
	(g) Hak saya untuk mengambil tindakan undang-undang sekira berlaku pelanggaran perjanjian pinjaman oleh pembiaya pinjaman. <i>My right to enforce legal action in the event of a breach of contract by loan provider.</i>	1	2	3	4	5

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Servis Selepas Jualan / After Sales Service

		<i>Below Expectations</i>	<i>Met some expectations</i>	<i>Met most expectations</i>	<i>Met all expectations</i>	<i>Exceeded expectations</i>
	Sila nyatakan sejauhmana servis selepas jualan oleh pembiaya pinjaman perumahan memenuhi jangkaan anda. <i>Please indicate to what extent the after sales service provided by the loan lender met your expectation.</i>					
20.	Pembiaya pinjaman perumahan melayan setiap pertanyaan saya dengan pantas. <i>Housing loan provider attends to my queries promptly.</i>	1	2	3	4	5
21.	Staf jualan menyediakan informasi perumahan terkini kepada saya. <i>The sales staff provides the latest housing information to me.</i>	1	2	3	4	5
22.	Pembiaya pinjaman perumahan memaklumkan kepada saya tentang perubahan kadar pinjaman asas (BLR). <i>The housing loan provider notified me about the changes of base lending rate (BLR).</i>	1	2	3	4	5
23.	Pembiaya pinjaman perumahan memaklumkan kepada saya tentang ansuran bulanan yang telah disemak apabila kadar faedah berubah. <i>The housing loan provider notified me about the revised monthly installment when the interest rate changes.</i>	1	2	3	4	5
24.	Pembiaya pinjaman perumahan mengakui menerima ansuran bayaran balik bulanan saya. <i>The housing loan provider acknowledged receipt of my monthly repayment.</i>	1	2	3	4	5
25.	Pembiaya pinjaman perumahan memberi khidmat rundingan kepada saya apabila terdapat isu-isu berkaitan pembayaran balik pinjaman. <i>The housing loan provider provides consultation to me when I encounter repayment issue.</i>	1	2	3	4	5

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Section III : Background and Demographic Information of Respondents/ Latar belakang dan Maklumat Demografi Responden

Sila tandakan (✓) bagi jawapan yang bersesuaian atau isikan ruangan kosong jika berkaitan.
Please tick (✓) the appropriate answer or fill in the blank where necessary.

Jantina / Gender

 1

Lelaki / Male

 2

Perempuan / Female

Bangsa / Race

 1

Melayu / Malay

 2

Cina / Chinese

 3

India / Indian

 4

Lain-lain / Others

Status perkahwinan / Marital status

 1

Bujang / Single

 2

Berkahwin / Married

 3

Bercerai / Divorced

Kumpulan Umur / Age group

 1

Di bawah 25 tahun / Below 25 years old

 2

25 hingga 35 tahun / 26 to 35 years old

 3

36 hingga 45 tahun / 36 to 45 years old

 4

46 hingga 55 tahun / 46 to 55 years old

 5

Melebihi 55 tahun / More than 55 years old

Tahap Pendidikan / Education Level

 1

Pendidikan rendah / Primary education

 2

Pendidikan Menengah / Secondary education

 3

College / Polytechnics / Institute

 4

Pendidikan Tinggi / Tertiary Education

Pekerjaan / Occupation

 1

Eksekutif / Executive

 2

Pengurusan pertengahan / Middle Management

 3

Pengurusan atasan / Top management

 4

Bekerja sendiri / Self-employed

Pendapatan bulanan / Monthly income

 1

Kurang daripada RM 1,000 / Below RM1,000

 4

RM3,001 - RM4,000

 2

RM1,001 - RM2,000

 5

RM4,001 - RM5,000

 3

RM2,001 - RM3,000

 6

RM5000 ke atas / RM5,001 and above

Terima kasih di atas kerjasama. Sumbangan anda amatlah dihargai
Thank you for your cooperation. Your contribution to this study is greatly appreciated.