

Exposure Draft on Personal Financing Feedback Statement Summary of Key Feedback Received and Bank Negara Malaysia's Responses

In December 2024, Bank Negara Malaysia (BNM) issued an Exposure Draft on Personal Financing (ED PF) for public consultation. A total of 91 responses were received, comprising feedback from 38 financial service providers (FSPs) and 53 members of the public, including individuals, consumer associations and a government agency. We greatly appreciate the time and effort made by all respondents in providing feedback and suggestions. These inputs have been instrumental in enhancing the requirements under the PF framework. Relevant feedback, suggestions and queries have been carefully considered and incorporated in the revised Policy Document on Personal Financing (PD PF).

No.	Area	Feedback received	BNM's response
1.	Effective date of the new requirements – whether agreeable with BNM's proposed effective date of 6 months from the date of issuance of the revised PD PF	<p>A significant number of FSPs requested for a longer duration than 6 months prior to the new requirements in the revised PD PF coming into effect. This request is mainly due to the need for FSPs to undertake the following -</p> <ul style="list-style-type: none"> a) enhancements to systems to recalculate interest/profit charges following the prohibition of the flat rate and/or Rule of 78 method, including to engage vendors and undertake system testing and validation; b) enhancements to CCRIS reporting for financing offered under a home financing for personal use to cater to the new requirements for separate reporting as a personal financing; c) revisions to internal processes and procedures, including updating onboarding requirements and relevant documentations; and 	<p>BNM acknowledges the importance of providing FSPs sufficient time to enhance their systems, processes and procedures, conduct staff training and ensure effective implementation of the new requirements.</p> <p>Given the above, all new requirements outlined in the revised PD PF will come into effect on 1 January 2027. For clarity, existing personal financing requirements will remain in effect upon the issuance of the revised PD PF. FSPs can refer to paragraph 5.1 of the revised PD PF for further details on the effective dates of the relevant paragraphs.</p> <p>FSPs are expected to initiate a thorough review of their existing systems, processes and procedures to identify and implement the necessary enhancements needed to</p>



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		d) staff training on the new requirements, systems and procedures.	ensure full compliance with the new requirements by the effective date.
2.	Maximum tenure for personal financing – whether it would be feasible to lower the existing maximum tenure of 10 years	<p>Feedback received from both the industry and public were quite consistent, with majority indicating preference to retain the existing maximum tenure of 10 years.</p> <p>Among the reasons highlighted for this preference were the potential implications of a shortened tenure to the more vulnerable or lower income segments, such as a potential decrease in the personal financing amount that can be afforded.</p> <p>Nevertheless, there were also feedback which expressed support to lower the maximum tenure, indicating the importance of curbing excessive household indebtedness and improving financial consumer's ability to manage their financials more effectively.</p>	<p>The maximum tenure for personal financing has been a macroprudential measure implemented by BNM since 2013. While BNM acknowledges the potential long-term benefits of reducing the maximum tenure, BNM has also carefully considered the immediate implications to the economy and certain financial consumer segments. To ensure a measured and orderly transition, the existing maximum tenure of 10 years will be retained in the revised PD PF.</p> <p>BNM will continue to monitor market trends, consumer outcomes, and potential risks to assess whether the current maximum tenure remains appropriate. Any changes will be considered when the timing and conditions are right. BNM remains committed to fostering responsible lending practices and ensuring that regulatory measures are implemented in a manner that supports both financial stability and consumer protection.</p>
3.	Existing expectations on the treatment of financing granted under a home financing or new financing secured by an	Majority of feedback from the industry had no objection to the treatment of such financing, given these are existing	BNM has carefully considered all feedback received and wishes to clarify the following- a) the treatment of any financing for personal use as a personal financing is



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	unencumbered property for personal use, i.e. to be treated as personal financing	<p>expectations that have been communicated by BNM to the industry in the past.</p> <p>Meanwhile, mixed feedback was received from the public, with some indicating support for the requirements, particularly to manage growth of financing extended to financial consumers for personal use that may not align with the financial consumers' long-term interests. The remaining feedback highlighted concerns on whether the requirement could impact their ability to access financing.</p>	<p>consistent with the definition under the existing PD PF;</p> <p>b) these existing expectations aims to safeguard financial consumers, particularly in light of rising levels of household debt, particularly to prevent financial consumers from taking on additional financing beyond their affordability which could lead to the loss of their property; and</p> <p>c) the requirement does not restrict access to financing for financial consumers, whereby financial consumers can continue utilising their property for financing, with only the financing amounts that are not used to pay off the property to be treated as personal financing.</p> <p>To ensure financial consumers remain protected, these existing expectations will be complemented with enhanced reporting requirements for FSPs. BNM will continue to monitor the impact of these expectations on households to ensure the measures remain effective and adequate.</p>
4.	Prohibition of offering personal financing under the flat rate and/or Rule of 78 method and disclosures of the effective	Majority of feedback received from both the industry and public were in favour of the prohibition, recognising that the transition to the reducing balance method can lead to	BNM has taken into consideration the feedback received, including FSPs' existing practices, whereby a significant number of FSPs are already offering personal



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	interest rate (EIR)/effective profit rate (EPR).	<p>fairer outcomes for financial consumers. There was also preference that the requirement be applied only on <u>new</u> personal financing offerings.</p> <p>Feedback received also agreed on the importance of EIR/EPR disclosures by FSPs for greater transparency and understanding to financial consumers on the actual interest/profit rate which the financial consumer will be paying over the loan/financing tenure.</p>	<p>financing products under the reducing balance method.</p> <p>Given this, BNM expects a smooth transition to the offering of personal financing under the reducing balance method, where less than half of industry players will be affected. BNM has also taken into consideration the time needed by the affected FSPs to undertake the necessary enhancements to systems, processes and procedures to operationalise the new requirement, which will come into effect on 1 January 2027.</p> <p>FSPs are currently required to disclose the EIR/EPR to financial consumers under the PD PF and the Policy Document on Product Transparency and Disclosure. Financial consumers are encouraged to compare different personal financing options before committing to any personal financing agreement and always ask FSPs for the EIR/EPR to understand the true cost of the personal financing offered.</p>