

# CONFESSION FROM A BANK STAFF

I'M SORRY, BUT MRTA DOES NOT NECESSARY PROTECT YOUR LOAN!

## MRTA DOES NOT PROTECT YOUR LOAN!

All Mortgage Loan Borrowers Should Know!

Most of the Property Owners believe that their mortgage loan was protected by Mortgage Reducing Term Assurance (MRTA or MRTT for Takaful), but this is not the fact! It is a real life situation that many loan borrowers not

knowing their loan is not well protected. In some of the situation, the protection expired within first few years while some with coverage less than half or a quarter of their loan amount.

## WHY MRTA?

What is the reason a mortgage sales propose MRTA?

First of all, it determines a mortgage sales person incentive and key performance index (KPI). Most of the time, banks will either through collaboration with their sister company or any other insurance company to provide MRTA to their borrower. Whichever the business partner may be, it will generate some revenue for the bank. Therefore, banks will want their mortgage sales to bundle the product to their customers. In order to ensure the cross selling, many banks actually impose minimum requirement to their sales person in order to get higher incentive or to meet their KPI.

Further to that, MRTAs bundled by bank are normally financed into the mortgage loan; but, there are guideline by banks that total Loan to Value ratio of a property should not be more than 90% (property) + 5% (Legal Fees, Valuation, Stamp Duty & MRTA). To avoid complication, mortgage sales will bundle the amount allowable for financing. Hence, the consideration is amount of premium that could be financed rather than amount of protection that the client need.

Lastly, due to the current competitive environment, every bank is offering different lending rate for mortgage loan and this is one of the biggest consideration of client when choosing a loan offer. Normally, bank will allow for rate appeal if client is taking certain amount of MRTA. Without properly advising client, mortgage sales will eventually bundle in a minimum amount to ensure the lending rate provided is competitive.

Therefore, MRTAs were often being offered without proper advice to clients.

## ACTION TO BE TAKEN:

Prepare Letter of Offer for all existing loan.

Prepare Loan Statement for all existing loan.

Review the current outstanding loan amount, review the protection amount provided by MRTA/MLTA.

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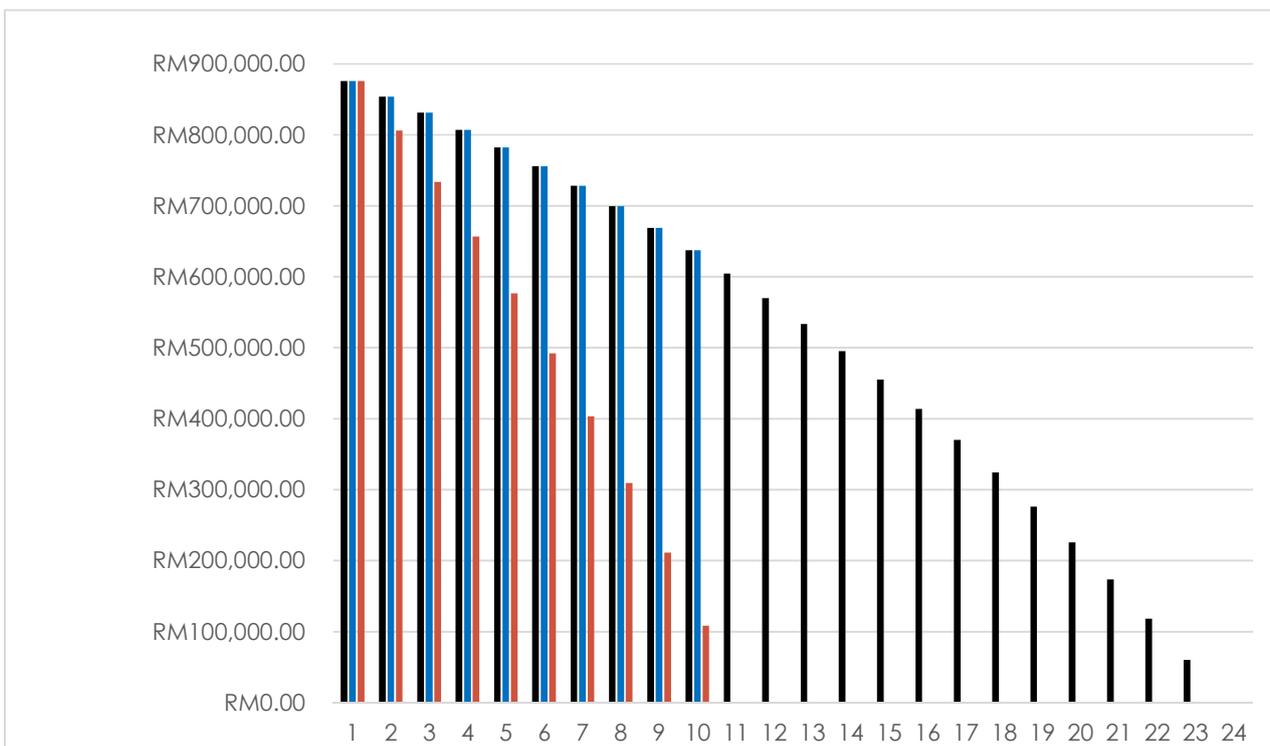
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## SOME MRTA'S FACTS MISUNDERSTOOD

What are the most common misunderstood facts about MRTA?

**My loan is covered with MRTA (100% loan amount and full tenure year), therefore I'm sure that my loan is very well taken care of if any unfortunate event happens to me.** This is true if the plan was properly planned, the interest rate expected during purchase of MRTA is valid or higher than the actual effective lending rate. For example, a 1% increase in lending rate would have increase your instalment by 10% in some case, or the loan will be prolonged by almost 10 years. Hence, the MRTA purchased earlier may not be sufficient to cover the outstanding loan amount.

**I've bought MRTA for 10 years, therefore for the first 10 years if anything happened to me, my loan is well taken care of.** This is one of the most misunderstood fact about MRTA. By referring to the chart below, this is an example of a loan with 24 years tenure, loan amount of RM 875,000-00. **Black** represent outstanding loan amount, **Blue** represent the expected protection for the first 10 years. **Red** represent the actual protection for the first 10 years.



Mortgage Reducing Term Assurance (MRTA) is one of the tool for loan protection. However, the highlight of this discussion is most of the time a borrower was not properly advised on how MRTA worked and what was provided. Hope this could help to create awareness among mortgage loan borrowers.

- This article is based on the understanding from an ex-bank mortgage sales person. The information is for reference only. We will not be held liable for any damages due to the use of information provided.