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Letter to Editor **13 June 2019**

Reforms and oversight on co-operative loans are long overdue

We refer to the Malaysia Co-operative Societies Commission's (SKM) statement on 10 June 2019 that it will investigate allegations of certain co-operatives being involved in a syndicated loan scam, and in falsifying payslips for civil servants and employees of government-linked companies.

The loan scam, which allegedly involves the Malaysian National Co-operative Movement (ANGKASA) and various individual co-operatives, is gaining traction and is currently being investigated, The Star reported on 8 June. The scams reportedly also involve loan payouts of only 50% of the amount that was applied for by civil servants with even their ATM cards being confiscated.

CAP has highlighted the problem of fraudulent loans under the ANGKASA salary deduction scheme since the last thirty years. We have received many complaints about excessive and unfair interest charged by co-operatives that operate sell-and-buy-back loans. We have also come across complaints where the borrowers were approached to take up loans and were given loans that were higher than what they had applied for.

Despite our letters and reports on this matter, the Federal Government and SKM have failed to address the problem and to impose practical reforms on this loan system which ends up allowing borrowers to be victimised.

It is ANGKASA's salary deductions scheme that makes civil servants much sought-after borrowers. When a civil servant takes up a loan, ANGKASA will deduct the monthly loan repayment from his salary and forward it to the lender. By allowing civil servants to be the target of lenders, the government is doing an injustice to their families. These personal loans that have resulted in hardship were likely to be spent on consumer products and not on necessities.

Even though the loan agreement was signed with the co-operative, the money came from a licensed moneylender. The co-operative was acting as agent of the moneylender and receiving commission for signing up borrowers.

The Government and SKM need to institute stronger and more effective oversight on "shadow banks", which are not regular banks but give out loans, as well as on credit co-operatives. Failure to do so reflects on SKM's inability to effectively regulate these institutions which find civil servants to be ideal borrowers because of ANGKASA.

What is also needed as an immediate measure is to reduce the amount of salary deductions that can be carried out by ANGKASA to one-third of the net salary. It is understood that this one-third guideline is used by banks to gauge whether the borrower can keep up with the monthly payments. With two-third of the salary available, families will have more money to spend on necessities.

We also note with concern Bank Negara Malaysia's findings in its Financial Stability Review released last September, as cited in the news report, that civil servants spent more than half of their monthly salaries on repaying debts. In BNM's box article entitled "Civil Servants' Debt: Risks and Policy Considera¬tions", it reportedly notes that these high debt levels are even more apparent for those earning less than RM5,000 monthly.

The Government must pay urgent attention and curb the vicious cycle of household debts because of its impact on the economy. The debt burden of low income families often results in them cutting back on essential expenditure like food and health. Meanwhile, the rich who own shares in lending institutions will get richer when the poor signs up for loans in these institutions. Thus debt increases both the wealth and income inequality gaps between the haves and the have-nots.

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