

Cagamas the unsung hero: 30 years of service to the nation

Whether it is the home you live in, or perhaps the property your children hope to buy as their first home, or the source of your income from bond investments, Cagamas has played a contributing role to each. It has worn many hats in serving the rakyat for the past 30 years.

Cagamas started operations in 1987 as the National Mortgage Corporation to develop the secondary mortgage market. The company was established to promote homeownership and spur the development of the capital market at the same time. It started by helping to purchase mortgages on recourse basis from banks and providing a cheaper cost of funding, which trickled down to the man in the street.

For every loan bought by Cagamas, an equal amount was raised in bonds or sukuk to fund the purchases. A fast turnaround time in providing liquidity to the banks, prudent risk management and the support of the central bank in its initial years of operation, are some of the factors that have contributed to its success, says Cagamas CEO Datuk Chung Chee Leong.

Providing homeownership and financial stability to the nation

The 1980s saw a deep global recession, high debt levels, inflation and structural adjustments in both developed and developing countries. Malaysia was not spared.

"In the course of these economic setbacks, the government was prompted to restructure the economy by promoting rapid industrialisation and to make way for the private sector to serve as the engine of growth, supported by institutional reforms," says Chung.

As liquidity began to tighten in the early 1980s, one of the institutional reforms was to rebuild the balance sheets of banking institutions by addressing the maturity mismatch in their assets and liabilities profiles. Weakening property prices and slower economic growth, combined with lower liquidity levels, prompted banks to scale back their mortgage loan growth. This resulted in fewer loan approvals and prevented potential house buyers from owning a home.

Cagamas stepped in to purchase mortgages, providing the much-needed liquidity for financial institutions and bridging the maturity mismatch on their balance sheets. At the same time, the issuance of Cagamas bonds and sukuk became one of the catalysts of growth in the Malaysian fixed income market.

"Essentially, by doing so, the secondary mortgage market enabled financial institutions to sell their housing loans to obtain liquidity to generate more housing loans," says Chung. Cagamas' role in improving banks' mortgage loan capacity helped revive the mortgage market and, indirectly, the property sector.

Cagamas has come a long way

Today, Cagamas has evolved into a fully-fledged mortgage corporation. It provides competitive funding to financial institutions to grow their housing loan portfolios and hedge interest rate risk exposure for their housing loans. It also provides financial institutions with solutions to manage their balance sheets and capital through housing loan securitisation as well as promoting homeownership to first-time buyers through the provision of guarantees.

In fact, Cagamas is now the second largest issuer of bonds and sukuk after the government and the largest corporate bond and sukuk issuer in the country. Cagamas' bonds and sukuk continue to be assigned a strong, Malaysia sovereign equivalent credit rating of A3 by Moody's Investors Service and AAA by both RAM Rating Services Bhd and Malaysian Rating Corp Bhd,

Cagamas



signifying its strong position in the market domestically and internationally.

It has also fulfilled its additional role of spurring the development of the corporate bond and the sukuk markets in Malaysia through regular and large issuances of bonds and sukuk with multiple tenures, ranging from three months to 20 years, to form a benchmark yield curve, says Chung.

"Cagamas' debt instruments account for 7% of total outstanding bonds and sukuk, and 20% of all outstanding AAA bonds and sukuk in the country (as at Aug 31, 2017)," he says.

Being the largest non-government issuer of debt in Malaysia, Cagamas has also pioneered the capital market funding for Islamic financing, which serves as a role model for other Islamic countries.

A strong role in assisting homebuyers then, now and in the future

According to Chung, the country's mortgage market has grown exponentially from RM20 billion in 1987 to over RM500 billion as at end-July 2017.

He estimates that Cagamas has cumulatively refinanced housing loans in the secondary market equivalent to RM134 billion or about 1.9 million houses (from inception till July this year).

Cagamas also participates in the government's My First Home (Skim Rumah Pertamaku or SRP) and Youth Housing Scheme (Skim Perumahan Belia or SPB), which were introduced in 2011 and 2015 respectively.

Both schemes allow young individuals or married couples to obtain 100% financing from participating banks to purchase their first home.

The accessibility to 100% financing is bolstered by the provision of mortgage guarantees through Cagamas SRP Bhd, which provides a guarantee to the bank for financing above 90% of the cost of the house. This enables eligible applicants to buy houses costing RM100,000 to RM500,000 without having to pay the 10% down payment.

Cagamas SRP Bhd has provided guarantee on RM1.6 billion housing loans and financing, enabling 7,413 individuals or households to own their first house (as at July this year). In the years to come, more Malaysians will be able to own homes because of Cagamas' efforts to lower the cost of financing and ease the barriers to owning a house.

Recognised internationally

Over the years, Cagamas has developed various bond structures (conventional and Islamic) to meet the demands of a broad spectrum of investors.

Particularly in the recent years, spearheaded by Chung, Cagamas has established a US\$5 billion conventional and sukuk multi-currency Euro Medium Term Note (EMTN) Programme to tap the international markets by offering multi-currency issuances over a range of tenures.

"These are efforts to diversify our geographic and institutional pool of investors. We hope to enhance and strengthen our ability to raise funding from a broad group of fixed-income investors while reducing dependence on the domestic market. It has steadily increased our visibility and strengthened our position as a global Malaysian corporate issuer," Chung says.

Since the establishment of the EMTN Programmes, Cagamas has successfully concluded 17 foreign currency issuances in offshore renminbi (CNH), Hong Kong dollars, US dollars and Singapore dollars, including its inaugural CNH 5 billion issuance and benchmark US\$500 million issuance in 2014 as well as the inaugural Singapore dollar sukuk in 2015.

Moving forward, Chung believes Cagamas is in a strong position to continue to transform itself to meet the challenges ahead. As the market and investors evolve to demand a higher level of sophistication in products, Cagamas continues to proactively identify opportunities, provide innovative solutions and develop more diverse financial products.

"We hope to be an active partner with financial institutions to build breadth and depth to the financial market and system in Malaysia. We have identified key success factors, such as engagement of technology to drive efficiency in operations supported by strong talent, prudent risk management and good corporate governance that will ensure the sustained growth and the success of Cagamas," he says.

We hope to be an active partner with financial institutions to build breadth and depth to the financial market and system in Malaysia"
– Datuk Chung Chee Leong



Cagamas



National Mortgage Corporation of Malaysia