



# Cagamas Berhad

The National Mortgage Corporation

Secondary Mortgage Markets : Asia Forum 2013, Bangkok

## Role of Cagamas in the Development of Secondary Mortgage Market in Malaysia

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President / Chief Executive Officer

31<sup>st</sup> July 2013



25  
Years of  
Housing the Nation



# Agenda

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- Overview of Malaysia's Housing Finance Market
- Malaysian Primary Mortgage Market
- Development of Malaysian Secondary Market : Cagamas Berhad
  - Background of Secondary Mortgage Market
  - History & Structure
  - Role of Cagamas
  - Impact of Setting Up Cagamas
  - Challenges
  - Key Success Factors



# Overview of Malaysia's Housing Finance Market

# Mortgage to GDP : Malaysia and Developing Asia

| Country         | GDP Growth | GDP Size   | Mortgage to GDP |             |
|-----------------|------------|------------|-----------------|-------------|
|                 | 2012       | 2012       | 2012            | 1998        |
|                 | %          | USD Bill   | %               |             |
| China           | 7.8        | 8,227      | 20              |             |
| India           | 3.9        | 1,824      | 9               |             |
| Indonesia       | 6.2        | 878        | 2               |             |
| Thailand        | 6.4        | 365        | 17              |             |
| <b>Malaysia</b> | <b>5.6</b> | <b>303</b> | <b>32</b>       | <b>17.9</b> |
| Singapore*      | 1.3        | 276        | 44              |             |

Mortgage as % of GDP has been on rising trend over the last 15 years

Malaysia's mortgage to GDP ratio is among the highest compared to other countries in Developing Asia largely due to :

1. Strong and proactive risk based regulation
2. Conservative lending practices

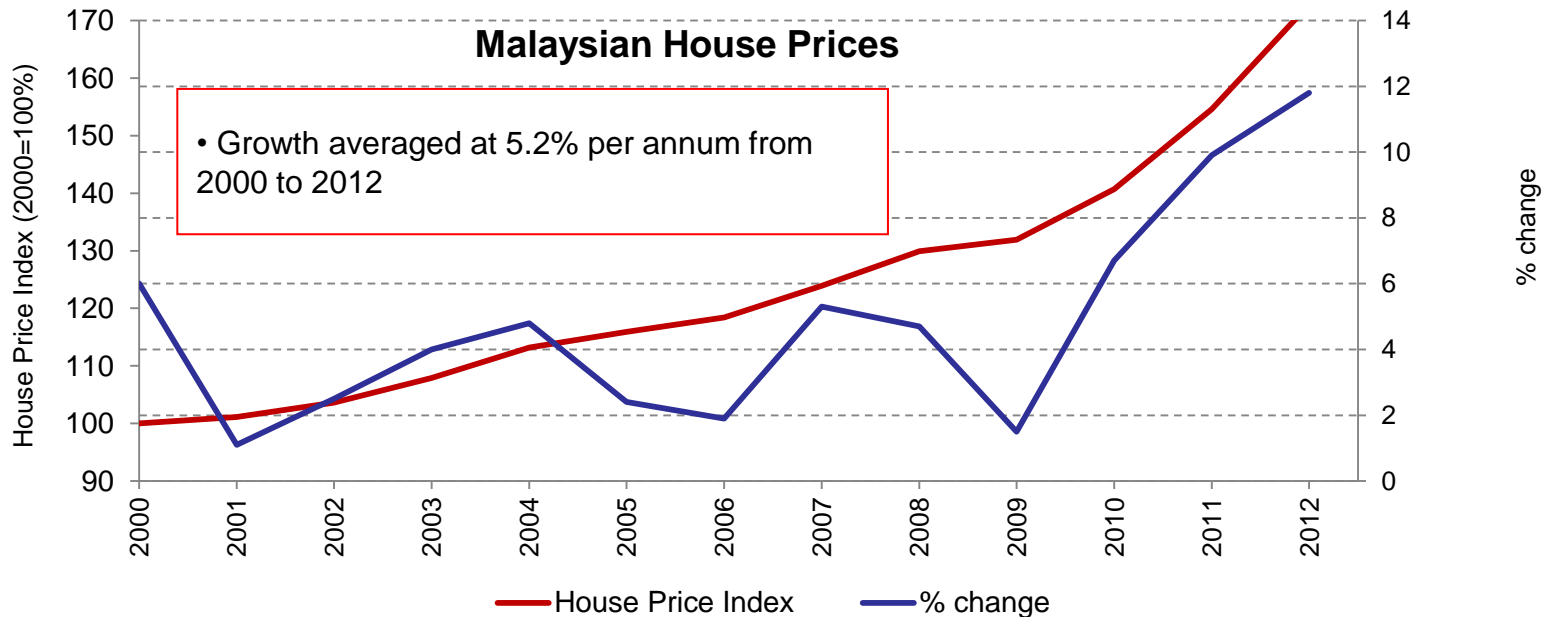
source : IMF, World Economic Outlook Database

\* Singapore falls under Advance Economies



## Housing Development in Malaysia

- Government and private sector play active roles in housing development in Malaysia
- Government via its agencies such as Perumahan Rakyat 1Malaysia Berhad (PR1MA) and Syarikat Perumahan Negara Berhad (SPNB) have been focusing on meeting supply and ensuring home ownership especially for the middle and lower income group



- In recent years, house prices in Malaysia have accelerated upwards since 2010 to reach an annual growth of 11.8% in 2012

Source: Central Bank of Malaysia, Annual Report (Various years)



# Strengthening the Housing Finance System

The Central Bank of Malaysia takes a responsible and measured approach to ensure Malaysia's housing market remains strong and stable.

The regulatory enhancements include:

Strengthened risk management standards and corporate governance practices by financial market players

Effective policies in place for development of housing finance system

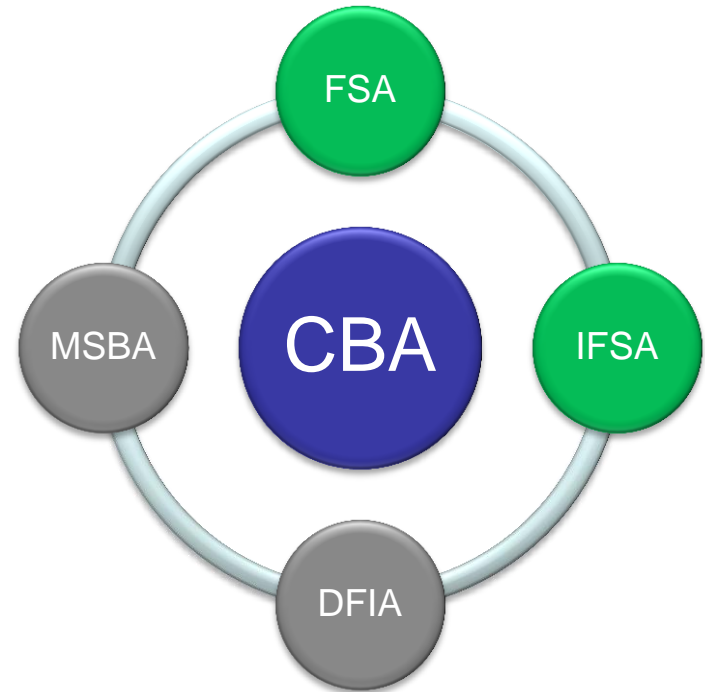
Comprehensive and robust regulatory and supervisory framework. Effective surveillance that is forward looking and focused on addressing the risks to overall financial stability



The responsibility to ensure soundness and robustness of the housing finance system lies with the close supervision functions by Central Bank of Malaysia which act as the main regulator for housing finance.

### Areas of regulations include:

- Margin of finance for the purchase of 3<sup>rd</sup> house and above (70% LTV )
- Loan tenor (max 35 years)
- Capital charge on mortgage financing
- Priority sector lending guidelines



CBA Central Bank of Malaysia Act 2009  
FSA Financial Services Act 2013  
IFSA Islamic Financial Services Act 2013  
MSBA Money Services Business Act 2011  
DFIA Development Financial Institutions Act 2002



# Malaysian Primary Mortgage Market





# Primary Mortgage Market

## Mortgage Originators in Malaysia consists of:

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### Private Sector

- Commercial Banks
- Malaysia Building Society Berhad (MBSB)
- Other Housing Credit Institutions

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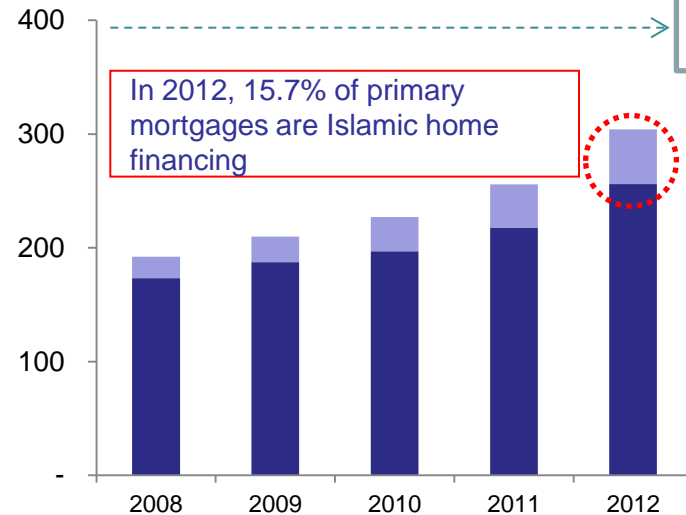
### Public Sector

- Housing Loan Division, Treasury Malaysia

- As at 2012, there are 27 Commercial Banks and 16 Islamic Banks in Malaysia
- Banking Institutions contributed 85% of housing loans/financing from total housing loans
- Average growth in Islamic home financing is 26% in 5 years

## Market Share of Islamic Home Financing

RM Billion



■ Total Housing Loans ■ Total Home Financing

Source: Central Bank of Malaysia, Annual Report, various years



# Development of Secondary Mortgage Market: Cagamas Berhad

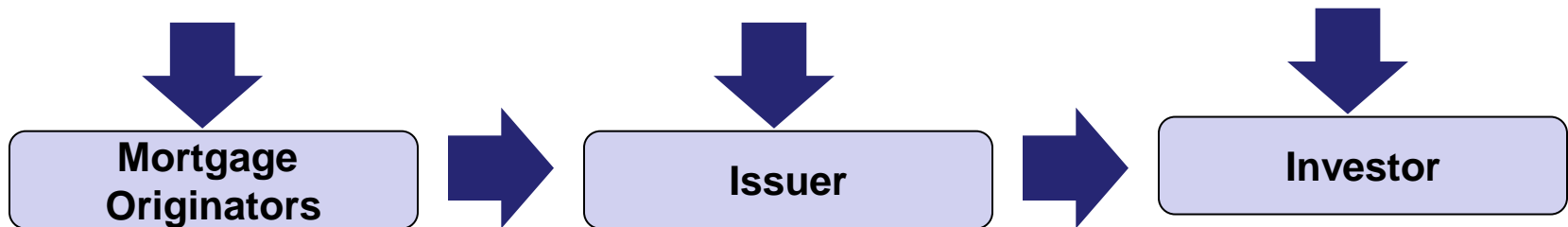


## The move to a Secondary Market – What is Required?

The World Bank identified the following areas as key pre-requisites for a successful secondary mortgage market:-

### Regulators

- Clear regulatory framework
- Clear legal, tax and accounting framework
- Rating framework
- Corporate governance and oversight structure
- Incentives



- Robust primary mortgage market
- Market needs
- Ability to assign/transfer assets

- Commitment and support by Government/Regulators

- Demand for secondary instruments
- Existence of Capital Market
- Diversified investor base
- Market knowledge / understanding

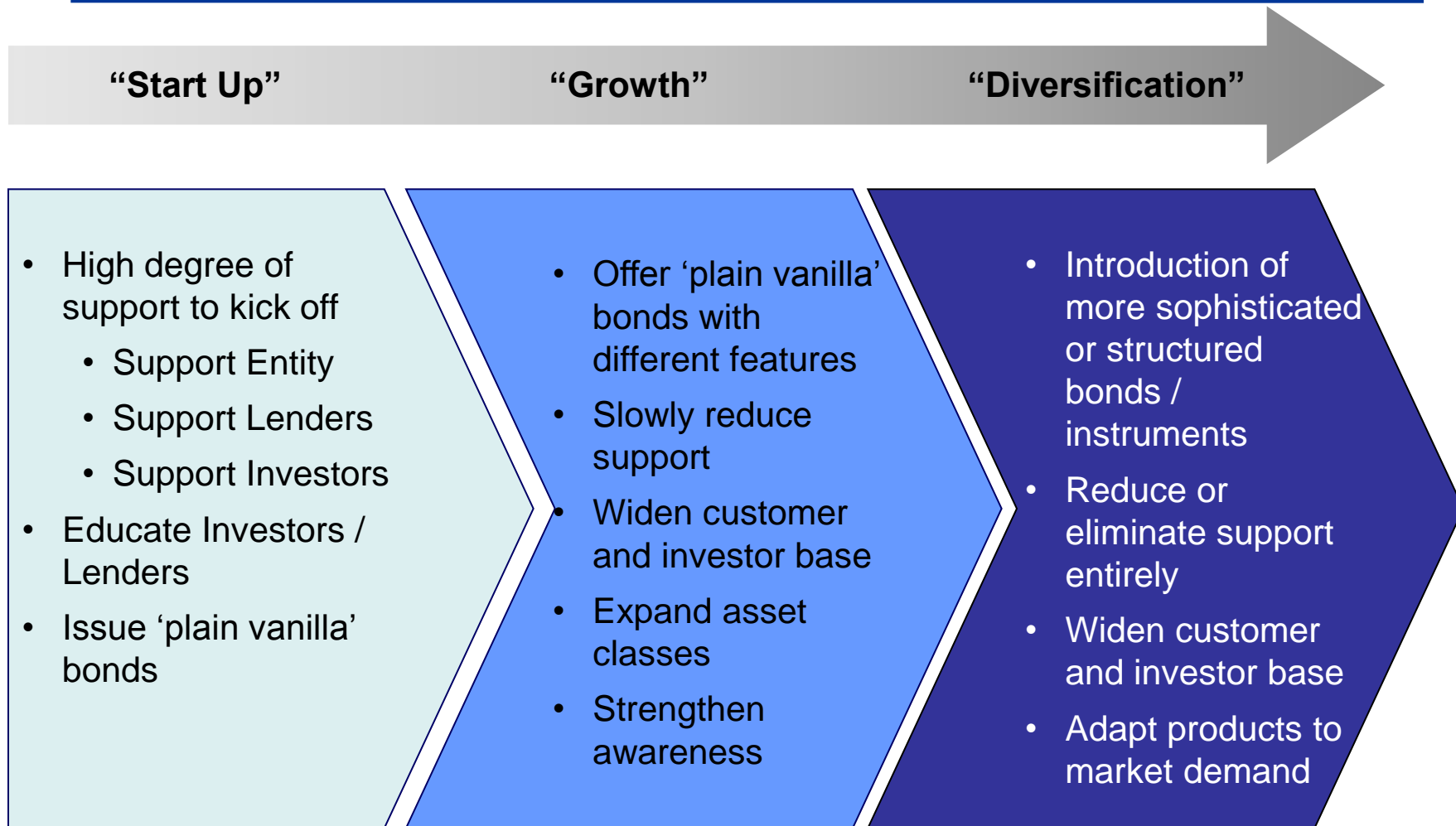


## The move to a Secondary Market – How to do it?

- Malaysia's experience has found that a phased approach towards developing a mature secondary mortgage market is effective
- The phases should cover:
  - The level of support received from the Government
  - The type of approach or priority towards the market, e.g. creating awareness
  - The type of secondary mortgage market products introduced



# Secondary Mortgage Market – Phase Approach



**Developmental Role**



**Private Initiative**





# History & Structure

## Establishment of Cagamas Berhad

- Creation of a secondary mortgage market as a result of a liquidity crunch in the 1980s and public policy objective of a “homeownership democracy”
- Spearhead the development of Private Debt Securities (PDS) market
- The market situation in the mid-1980’s:-

Funding mismatch in financial institutions resulting in liquidity crunch

Financial institutions were not lending to homebuyers despite demand

Limited funding source in the market – no bond market



There was a need in the market for an institution to:-

1. Function as intermediary between primary lenders and investors of long term funds; and
2. Take on role of credible issuer of mortgage securities



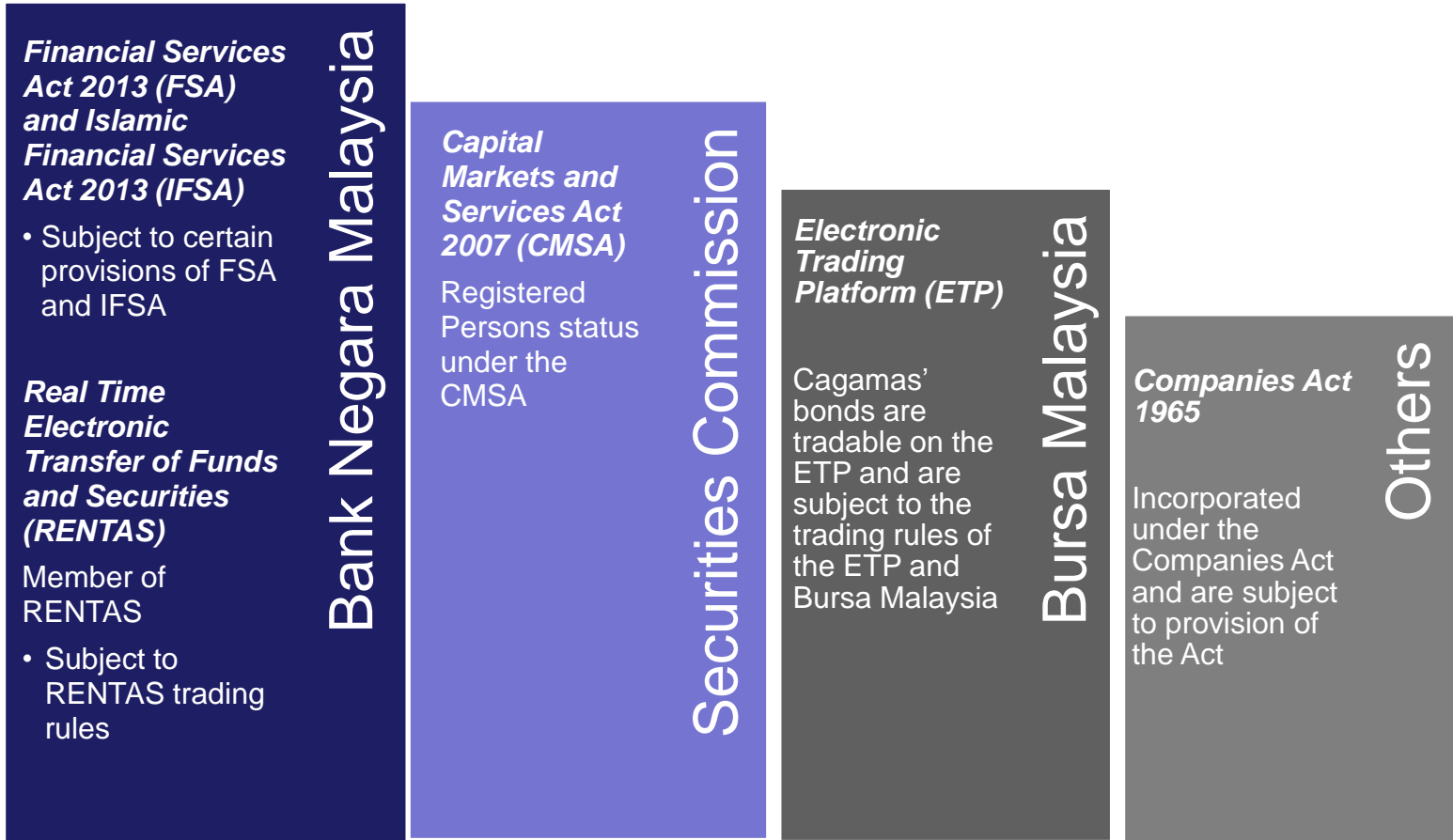
# History & Structure

- Commenced operations in 1987 as the National Mortgage Corporation
- Objective

To promote the broader spread of home ownership and growth of the secondary mortgage market in Malaysia



- Cagamas issues bonds/sukuk to finance the purchase of loans/financing assets (mainly mortgage) from financial institutions and non-financial institutions.
- The provision of liquidity to financial institutions at a competitive cost to the primary lenders of mortgage encourages further expansion of financing for houses at an affordable cost and increases home ownership by Malaysians.
- The Cagamas model is well regarded by the World Bank as a successful secondary mortgage liquidity facility.
- Cagamas' bonds/sukuk continue to be assigned the highest ratings of AAA by RAM Rating Services Berhad and Malaysian Rating Corporation Berhad, denoting its strong credit quality.







# Regulatory Treatment

Incentives given by the Central Bank of Malaysia in Cagamas' early years of operations

|   | Regulatory Treatment for Cagamas debt securities issued before 4 September 2004 | Revised Regulatory Treatment for Cagamas debt securities issued after 4 September 2004 |
|---|---|--|
| Risk weight under the Risk Weighted Capital Ratio framework | 10%   | 20%  |
| Liquefiable assets status under the liquidity framework     | Class-1 liquefiable   | Class-2 liquefiable  |
| Yield slippage under the liquidity framework                | 4%  | 6%   |
| Single Customers Credit Limit (SCCL)                        | Exempted from SCCL  | Subject to SCCL of 25% of the total capital funds                                      |
| Mode of primary issuance                                    | Through Principal Dealers' network  | Not through Principal Dealers' network   |
| Holdings by insurance companies                             | Low risk asset  | Credit facilities  |

As at todate, Cagamas bonds have been assigned AAA by rating agencies in Malaysia – Rating Agency Malaysia (RAM) and Malaysia Rating Corporation (MARC) with NIL default rate.



# Facts & Figures

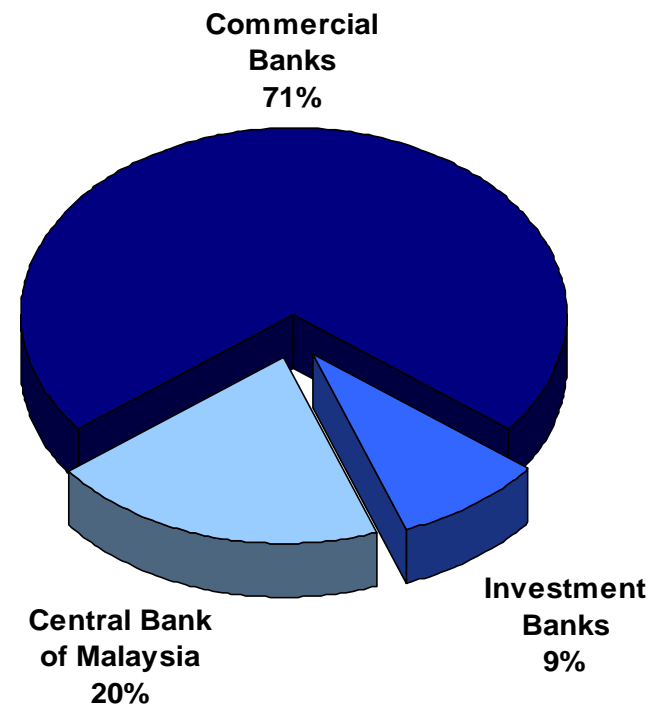
## Corporate Bond and Sukuk Issuance (Cagamas Group) as at 31 May 2013

- Issued RM266.8 billion/ equiv USD82.7 billion bonds to date (Sukuk: RM35.6/ equiv USD11.04 billion)
- Outstanding Bonds of RM26.5 billion/ equiv USD6.4 billion (Sukuk of RM14.2 billion/ equiv USD3.5 billion)
- Accounts for 22% of AAA Outstanding Bonds (Sukuk 16% of AAA Outstanding)

## Asset-Backed Securities (ABS) Issuance

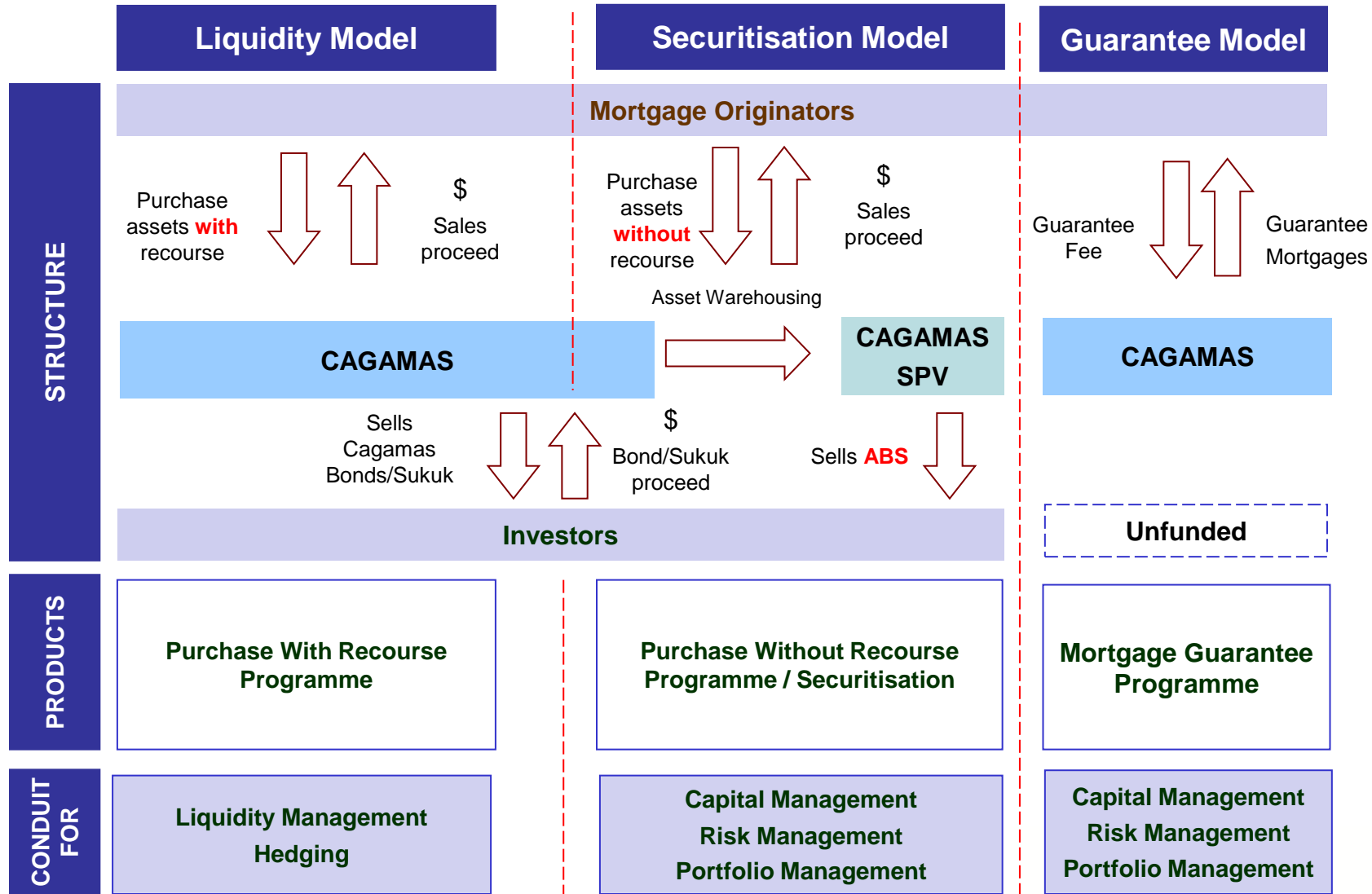
- Issued RM10.2 billion/ equiv USD3.2 billion Residential Mortgage-Backed Securities (RMBS) (Islamic RMBS – RM4.2 billion/ equiv USD1.3 billion)
- Outstanding RMBS of RM6.03 billion/ equiv USD1.9 billion (Islamic RMBS of RM2.8 billion/ equiv USD0.9 billion)
- Accounts for 69% of AAA outstanding ABS (84% of AAA Islamic ABS)

## Shareholding Structure as at 31 December 2012



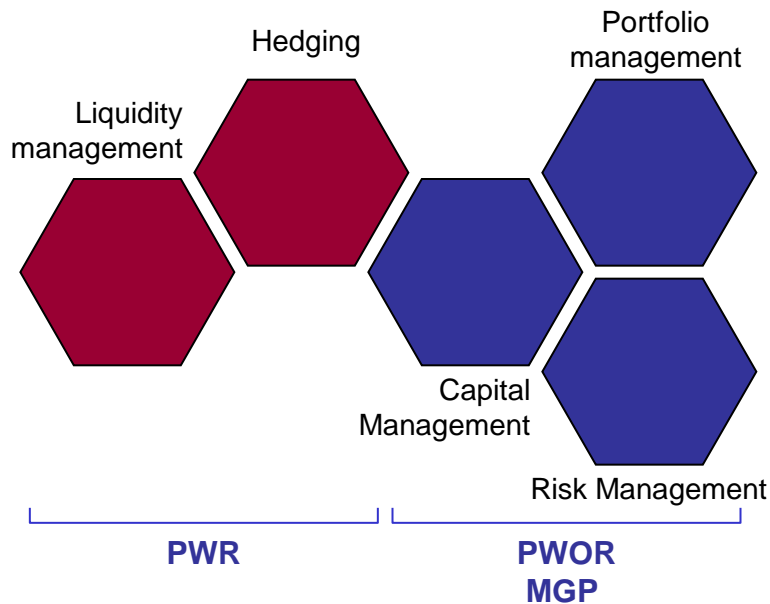


# Business Model



# Business Model /cont..

- Cagamas offers the following tools to the financial institutions:-



- Cagamas purchases both **conventional** and **Islamic** loans/financing and fund the purchases through the issuance of bonds/sukuk.
- Loans / financing are purchased either on a with recourse to the originator basis (**PWR**); or on a without recourse basis (**PWOR**)
- **MGP** offers 'first loss' protection on a mortgage portfolio while the mortgage assets remain on the Originator's books

## Type of Loans / Financing Purchased:

### Purchase with Recourse (PWR)

- Conventional Housing Loans Purchase Facilities
- Islamic House Financing Purchase Facility
- Industrial Property Loans Purchase Facility
- Hire Purchase and Leasing Debts Purchase Facility
- Islamic Hire Purchase Facility
- Credit Card Receivables
- Islamic Personal Financing
- Al Rahnū Financing
- Credit Card Receivables

### Purchase without Recourse (PWOR)

- Conventional Housing Loans
- Islamic House Financing

### Mortgage Guarantee Programme (MGP)

- Conventional Housing Loans
- Islamic House Financing



# Roles of Cagamas

Roles of Cagamas in developing the secondary mortgage facility in Malaysia:

- Catalyst for the Government's and Central Bank's initiative for the economy and financial sector
- 4 key areas:-





# Roles of Cagamas

1

## Promotion of home ownership and affordability in Malaysia

- Provide liquidity and hedging to mortgage financier – PWR programme
- Provide match funding – multi-tenor Private Debt Securities(PDS)
- Provide lower cost of funds – AAA funding and high demand of Cagamas Securities.
- Link the mortgage market to the capital market – development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic



Launching of My First Home Scheme by Malaysian Prime Minister, Dato' Sri Mohd Najib Tun Razak in 2011

- Develop innovative structures for mortgage financier – mortgage guarantee under the My First Home Scheme (SRP) to promote home ownership among young working adults



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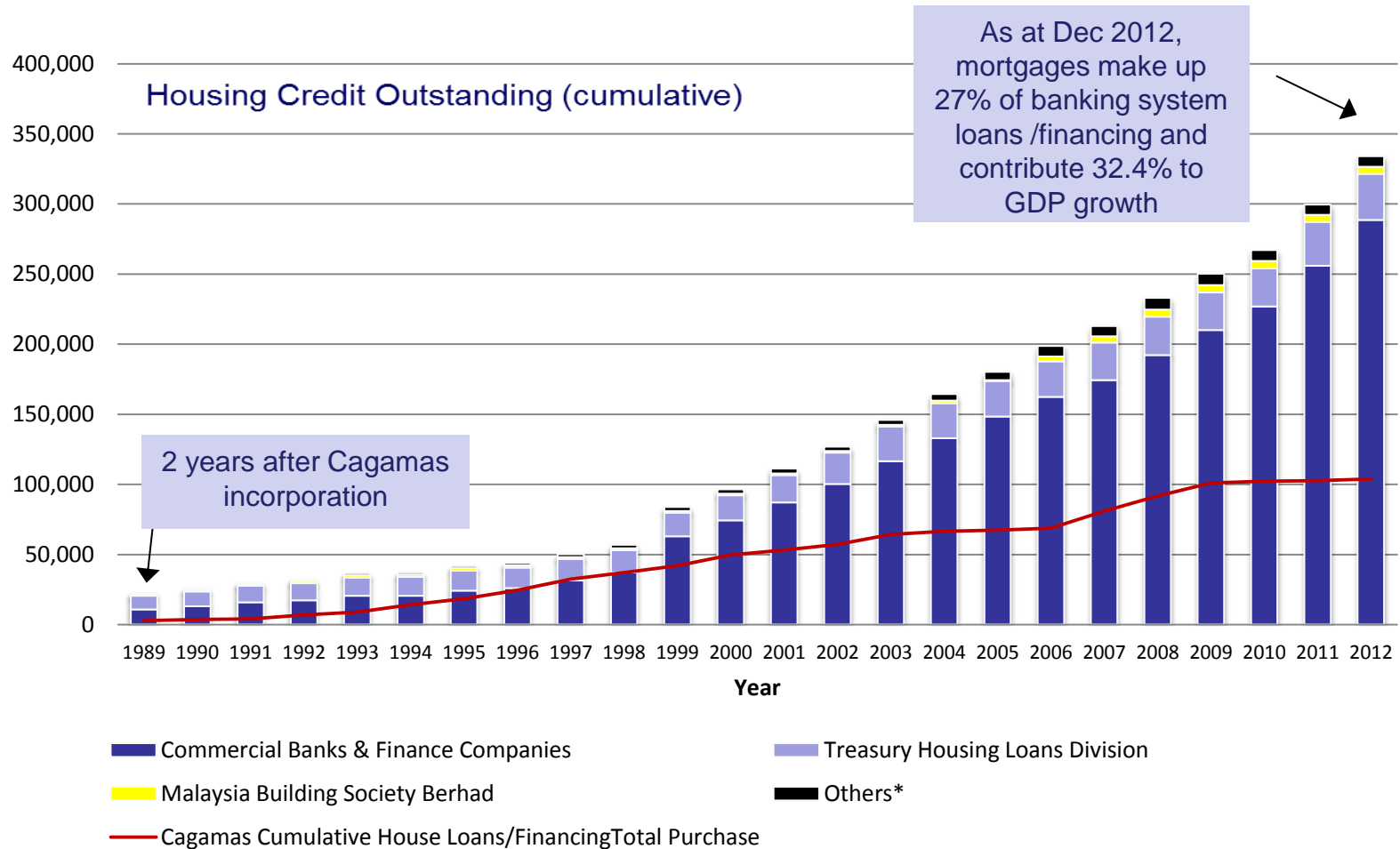
## Promotion of home ownership/home accessibility and affordability in Malaysia..cont

- Promoting origination of longer tenure house financing
  - Longer tenure financing of up to 25 or even 30 years
  - Demand for houses has strengthened and house financing are more affordable
- Generating strong competition among financial institutions to grant house financing
  - Provide access to competitively priced funds, resulting in easy access to affordable house financing (particularly the low cost sector)



## Promotion of home financing in Malaysia

RM Million



Source: BNM Annual Report, various years

\* Others inclusive of Bank Kerjasama Rakyat Malaysia Berhad, Borneo Housing Mortgage Finance Berhad, Bank Simpanan Nasional and Sabah Credit Corporation







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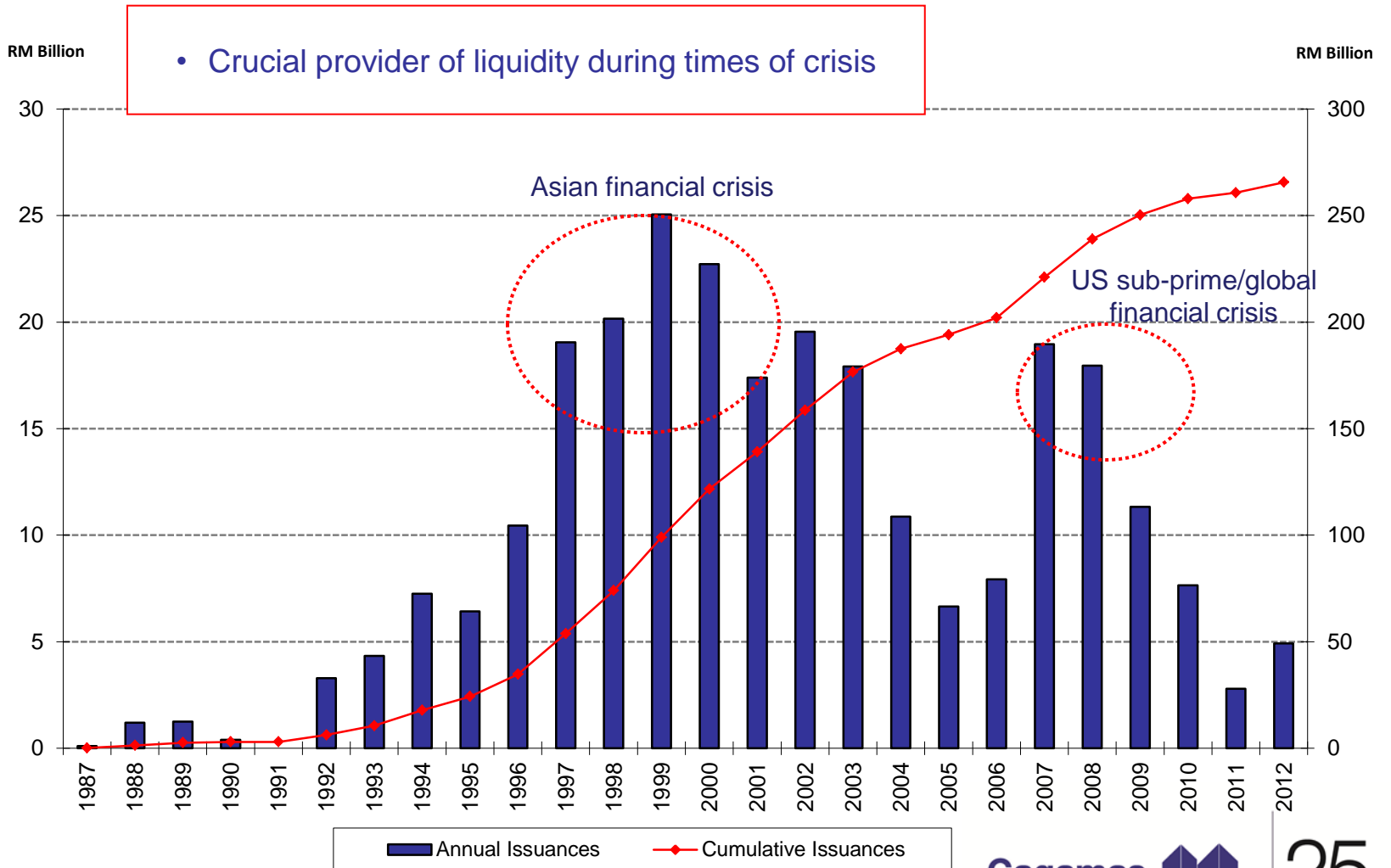
## Enhance and support in the stabilization of the financial sector in Malaysia

- Provide credit and portfolio risk management solutions
- Provide capital management solutions
- Conduit to remove systemic risk in the financial sector due to Cagamas' role as a liquidity provider
- Conduit for best practices & setting up of standards – development of conforming financing standards



# Roles of Cagamas

Provided liquidity of about **RM266.8 billion\*** to the financial sector to date



\* As at May 2013



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## Development of the Malaysian Capital Market

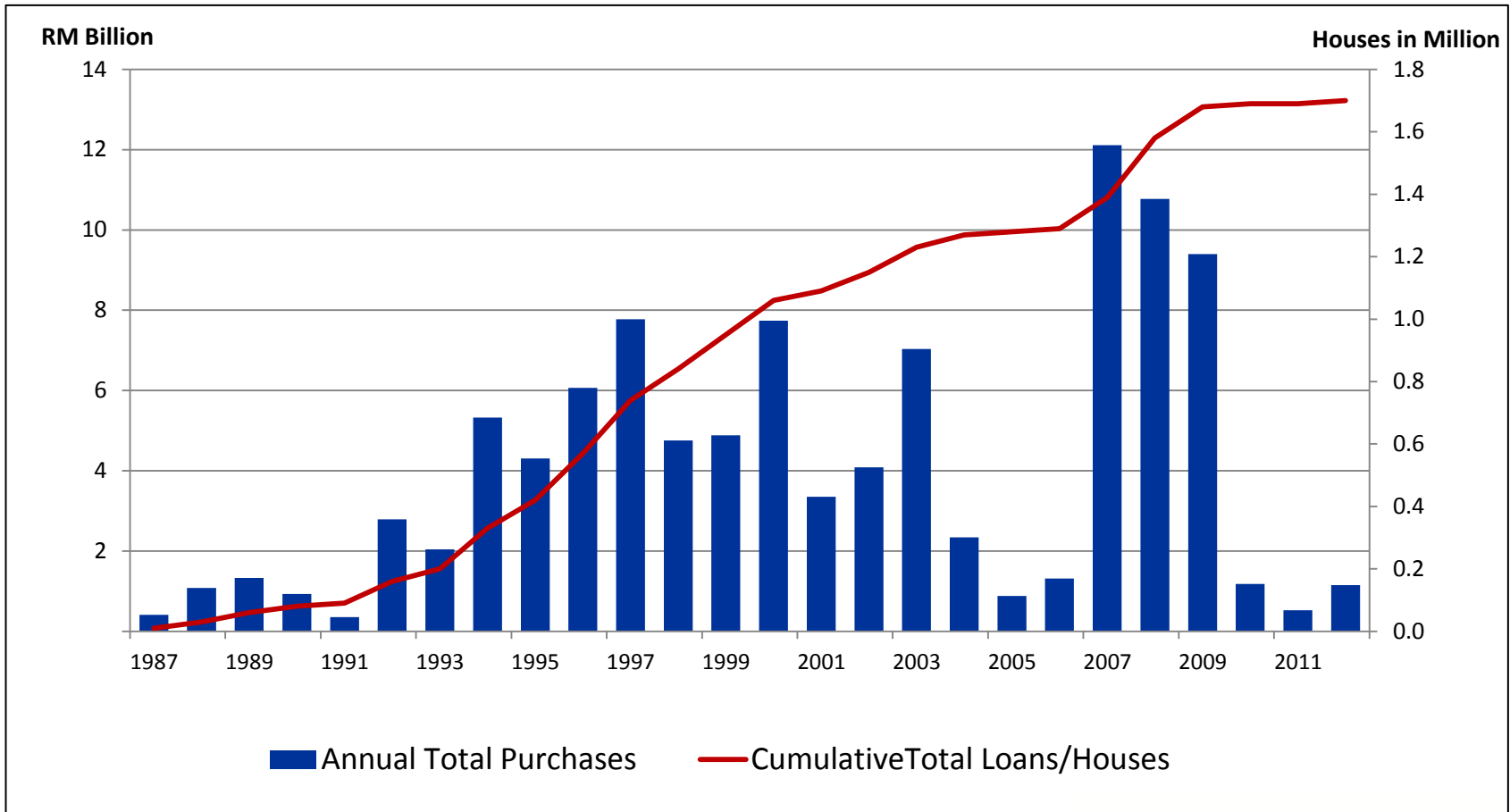
- Enhance the quality of capital securities market – structuring of high investment grade instruments
  - Approx. 22%\* of AAA Malaysian Private Debt Securities (PDS) market
  - Approx. 69%\* of AAA Malaysian Asset Backed Securities (ABS) market
- Contribute to the depth and breadth of capital market – structuring of sophisticated instruments
- Significant player in the capital securities market
  - 1<sup>st</sup> RMBS issuer in Malaysia (April 2004)
  - 2nd largest issuer after the Government of Malaysia
- Providing an alternative form of investment in quality private capital securities
  - Large volume of highly-rated multi-tenor Cagamas capital securities has given investors new instruments for investing their surplus funds

*\*Percentage as at 31<sup>st</sup> May 2013*



# Roles of Cagamas

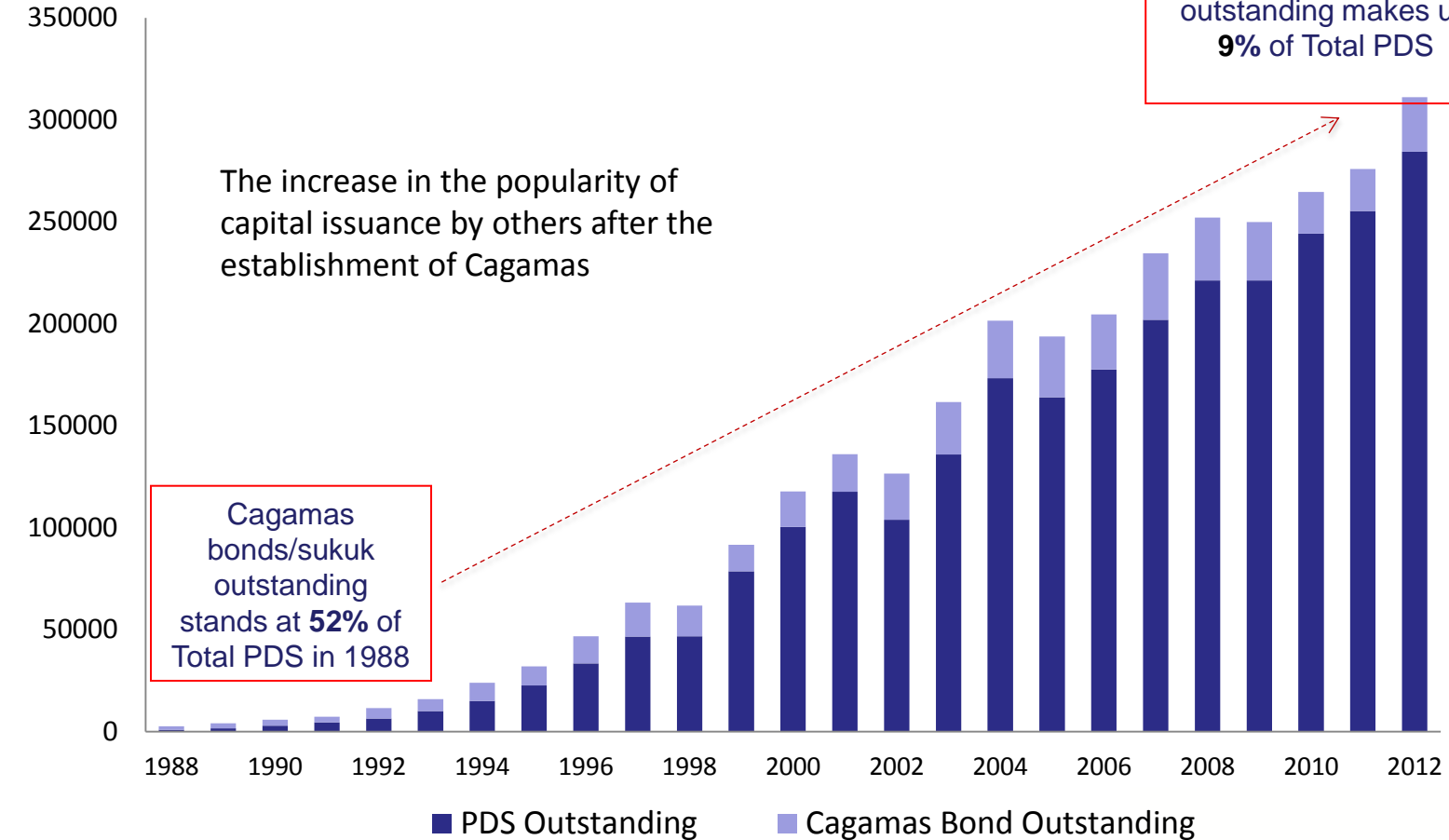
Cagamas has cumulatively refinanced housing loans in the secondary market equivalent to **RM104 billion** or around **1.7 million houses**





## Cagamas' share in PDS Market

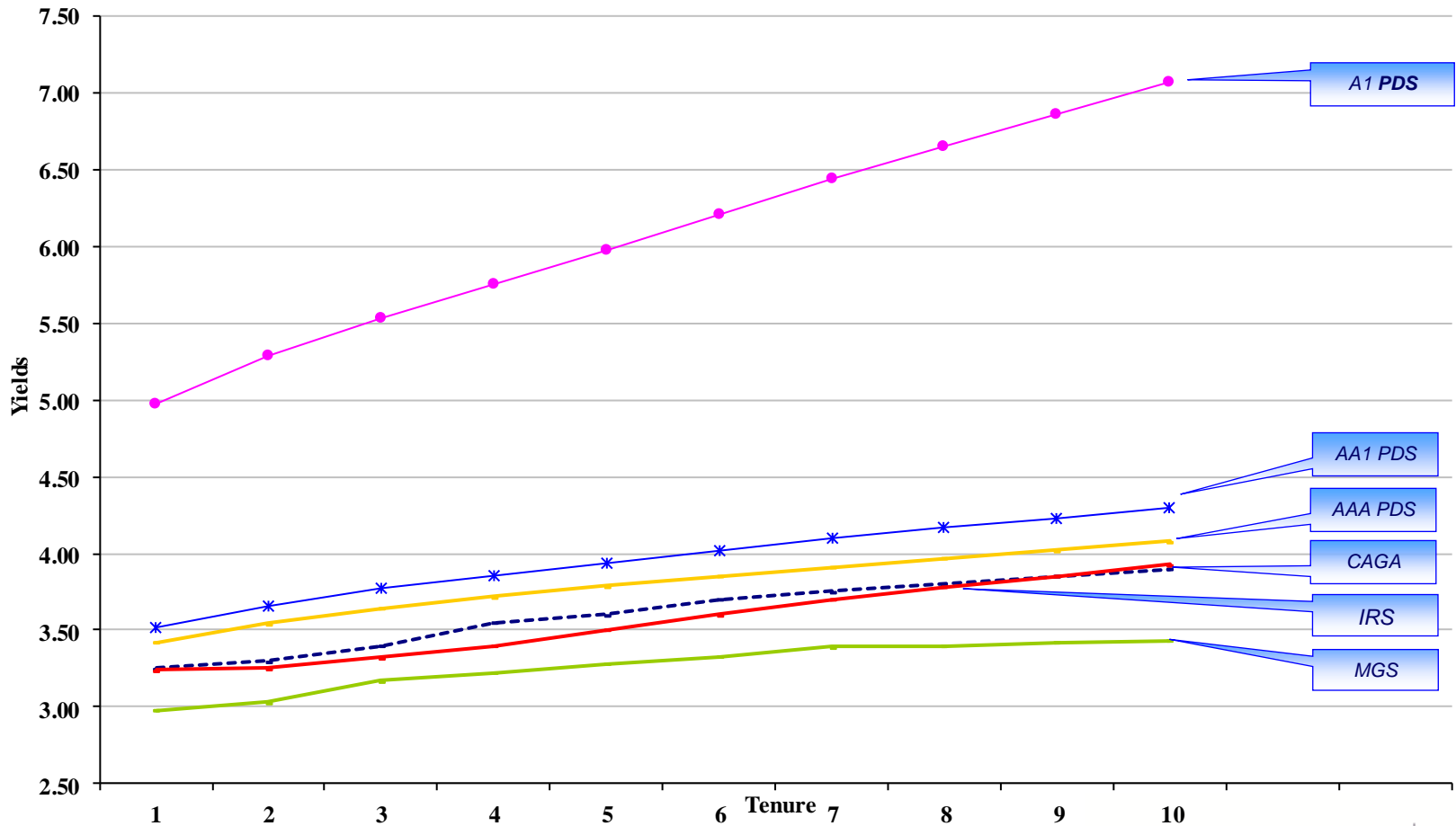
RM Million



Source: BNM Annual Report, various years



Cagamas bond yield comparison against IRS, MGS , AAA , AA1 & A1 PDS\*



\*As at 31 May 2013



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## Development of the Islamic Financial Sector

- Enhance the quality of Islamic capital market – structuring of high investment grade sukuk
- Contribute to the depth and breadth of Islamic capital market – structuring of sophisticated instruments
- Support the promotion of Malaysia as an International Islamic Financial Centre
- Significant player in the Malaysian Islamic securities market
  - Approx. 16%\* of AAA Malaysian Sukuk market
  - Approx. 84%\* of AAA Malaysian Islamic ABS market

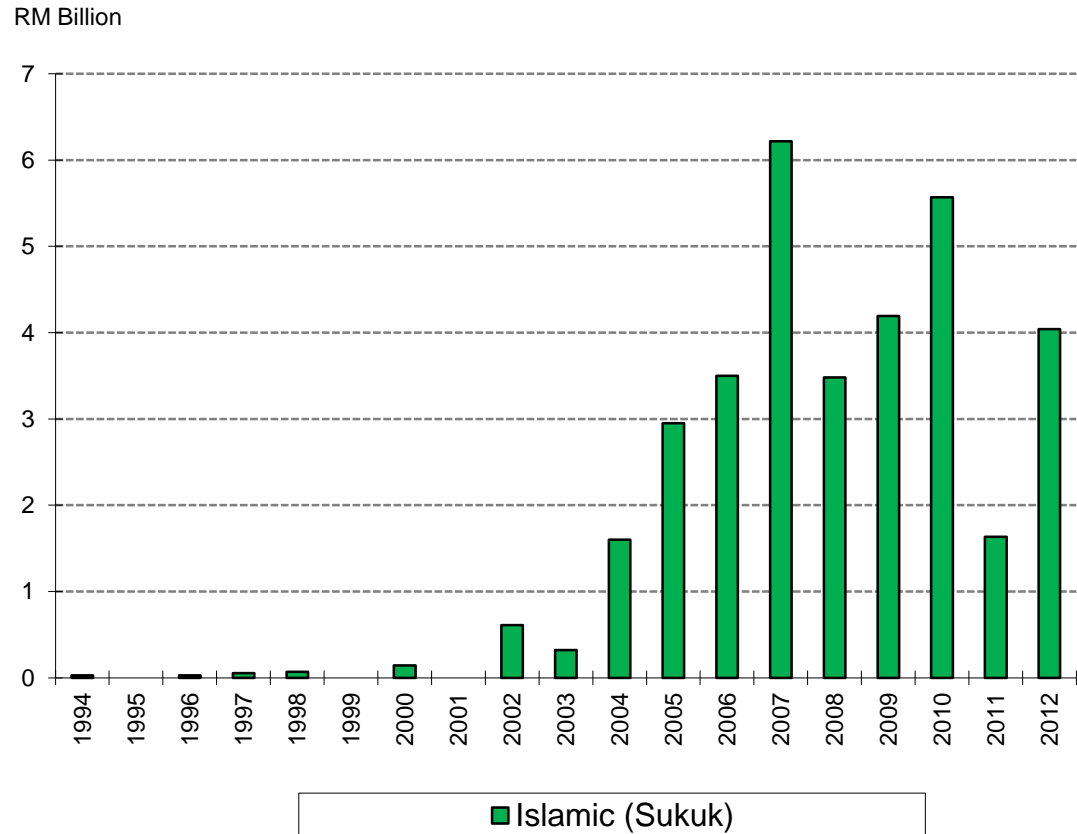
*\*Percentage as at 31<sup>st</sup> May 2013*



# Cagamas Sukuk Issuances

| Year | Sukuk Issuances (RM Million) |
|------|------------------------------|
| 1994 | 30                           |
| 1996 | 30                           |
| 1997 | 54                           |
| 1998 | 70                           |
| 2000 | 144                          |
| 2002 | 610                          |
| 2003 | 320                          |
| 2004 | 1,600                        |
| 2005 | 2,950                        |
| 2006 | 3,500                        |
| 2007 | 6,220                        |
| 2008 | 3,480                        |
| 2009 | 4,195                        |
| 2010 | 5,570                        |
| 2011 | 1,635                        |
| 2012 | 4,040                        |

Cagamas has issued **RM34.4 billion or 13%** of Sukuk since inception and the percentage was growing from year to year basis



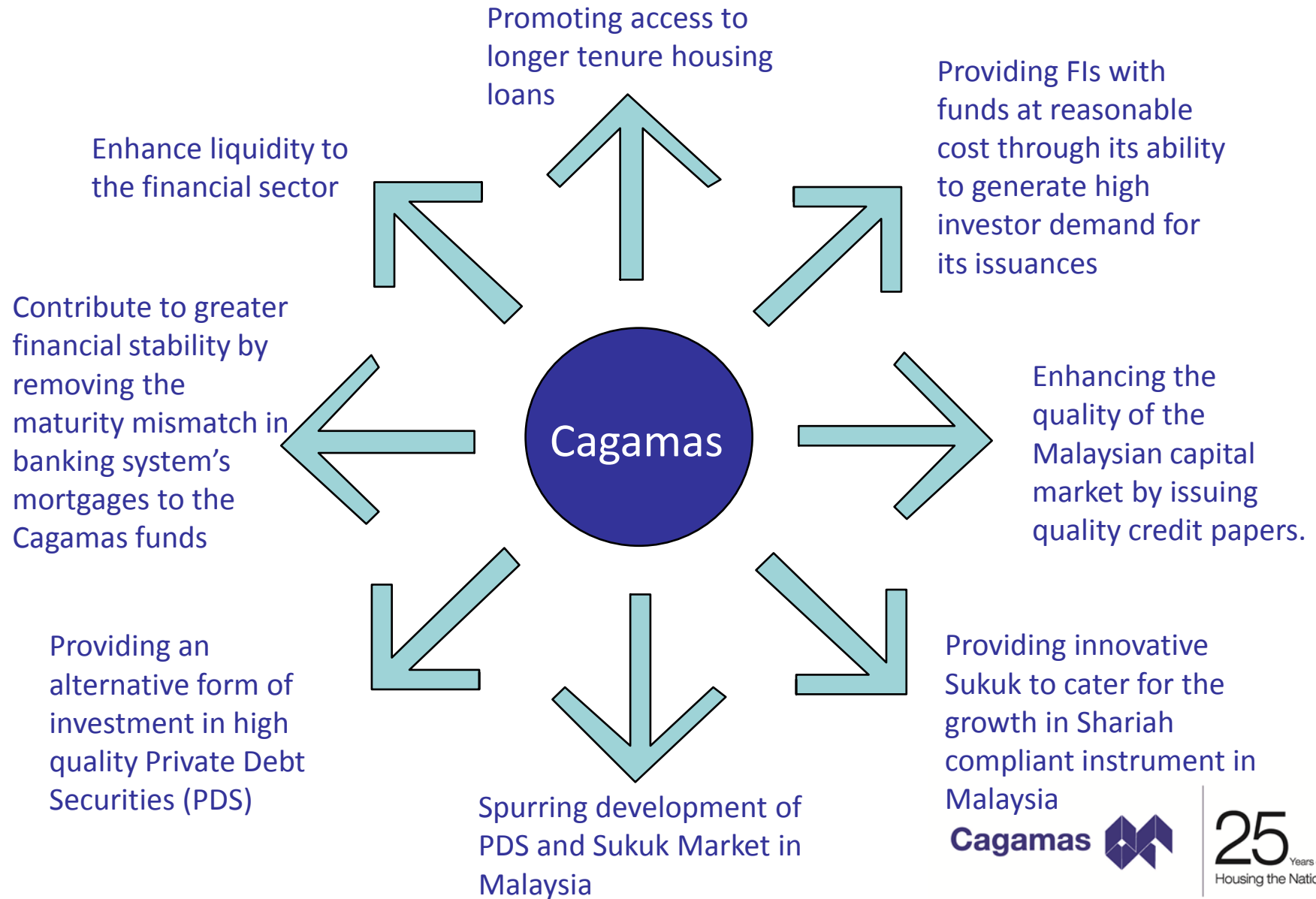




# Impact of Setting up Cagamas



# Impact of Setting up Cagamas





# Challenges



# Challenges and Mitigating Actions

## Challenges

**Excess liquidity in the banking system**

- Overall liquidity in the banking system remained ample. No urgency for financial institutions (FIs) to sell assets to Cagamas

**Stable interest rate**

- A lower interest rate environment will reduce the FI's need to hedge their interest rates

**Capital adequacy for FIs remains healthy**

- Healthy industry capital ratio- less need to raise or free up capital by FIs

**Lower loan growth by the banking sector**

- A lower growth rate will further motivate FIs to maintain the loans on their balance sheet as a key performance measure

**Further downturn in economy**

- This scenario may lead to high default rates in the banks

## Actions

- Target banks and development financial institutions whose loan to deposit ratios exceed the industry average
- Continue to target FIs which are rated AA or A, given Cagamas' AAA rating as an alternative for attractive funding rates.
- Continue to maintain a prudent and cautious approach in managing its credit risk
- Promoting Conforming Loan standards to facilitate purchases



# Key Success Factors



## Cagamas Key Success Factor

### Solid financial standing & shareholding

- Profitable going concern
- Strong shareholders equity of RM2.1 billion/equiv USD0.65 billion
- High RWCR of over 20%
- Strong shareholders in the form of Central Bank of Malaysia and Financial Institutions

### Strong management team

- Experienced and dedicated professional team
- Result oriented and performance driven culture
- Robust risk management and corporate governance structure

### Support given by regulators

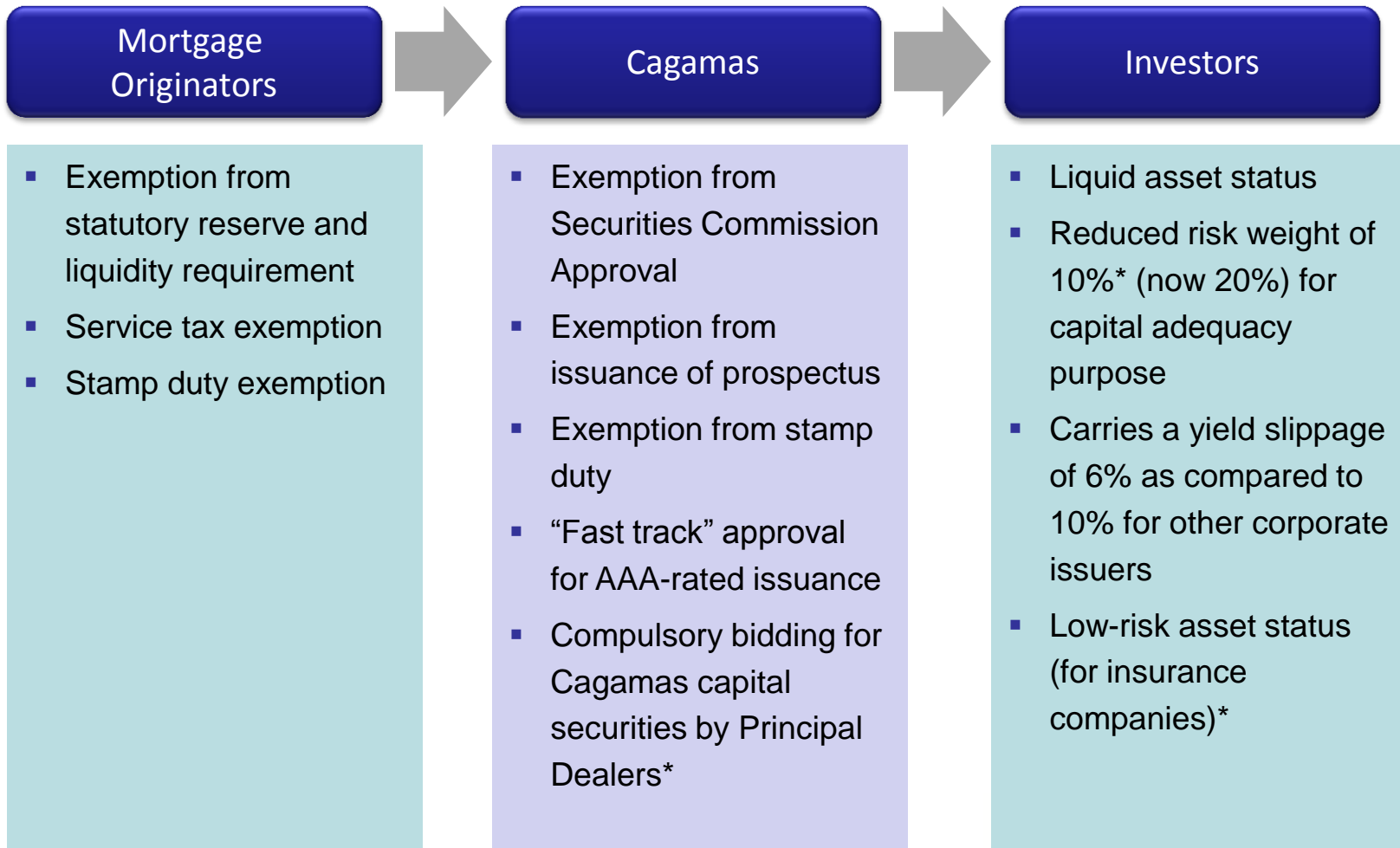
Implicit and explicit support given:-

- Implicit: Through Central Bank of Malaysia's shareholding in Cagamas
- Explicit: Through incentives by government and regulators at the initial stage



# Key Success Factors

## Supporting Measures





# Conclusion

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Cagamas in today's market has continuously evolved with the changing financial landscape to play an active role as a catalyst for the Government's and the Central Bank of Malaysia's initiatives for the economy and financial sector.

Cagamas has certainly made its mark over the past 25 years. In fact, not only has Cagamas become well known in the region, but also internationally, for its role in developing the Malaysian secondary mortgage market, pioneering the private debt securities market and achieving many firsts in the Islamic finance arena. Cagamas has become a source of reference and a model for many developing countries, and is often quoted by international agencies, such as the World Bank, the Asian Development Bank and the International Finance Corporation.
















Having achieved its goals amongst the challenges faced over time, it is equally important for Cagamas to move forward in expanding its role to support sectors beyond housing. Presently, Cagamas is in the midst of rolling out initiatives to widen product offerings to cover more sectors. Initiatives presently include regional expansion within the Asian region. In this context, continued support from the Government and Regulators is crucial for Cagamas' future growth and success.





# Awards and Accolades

Cagamas has achieved many “**firsts**” for capital market transactions in Malaysia and beyond; garnering a number of impressive awards and accolades over the past years

| Transaction   | Awards Won  |
|---|---|
| <ul style="list-style-type: none"> <li>First rated Islamic Home Financing Backed Sukuk Musyarakah (RM2.05 billion) transaction in the world (2005)</li> </ul>   |    <ul style="list-style-type: none"> <li>Best Malaysian Deal</li> <li>Best Domestic Securitisation Deal</li> <li>Best Islamic Finance Deal</li> <li>Islamic Finance Deal of the Year</li> <li>New Islamic Benchmark Deal of the Year</li> </ul>  |
| <ul style="list-style-type: none"> <li>First residential mortgage backed securities (RM1.55 billion) transaction in Malaysia (2004)</li> </ul>  |    <ul style="list-style-type: none"> <li>Best Local Currency Bond Deal of the Year</li> <li>Best Local Currency Bond in Asia</li> <li>Best Malaysian Ringgit Bond</li> </ul>   |
| <ul style="list-style-type: none"> <li>First Synthetic Securitisation of SME Loans (RM600 million) transaction in the ASEAN region (2007)</li> <li>Largest funding programme of its kind (RM60 billion CP/MTN programme) in the ASEAN region (2007)</li> </ul>  |     <ul style="list-style-type: none"> <li>Malaysia Capital Markets Deal of the Year</li> <li>Asian Deal of the Year</li> <li>Best Domestic Securitisation</li> <li>New Structured Finance Benchmark Deal</li> <li>Longest programme tenure in Malaysia (40 year MTN programme)</li> </ul>   |
| <ul style="list-style-type: none"> <li>Largest and longest dated corporate Sukuk transaction in Malaysia (2008) (Sukuk Commodity Murabahah RM2.015 billion)</li> <li>Largest multi-tenured Sukuk Commodity Murabahah transaction in 2009 (Sukuk Commodity Murabahah RM915 million)</li> </ul>   |   <ul style="list-style-type: none"> <li>Issuer of the Year</li> <li>Most Innovative Islamic Finance Deal</li> <li>Tawarruq Deal of the Year</li> <li>Most Innovative Deal</li> </ul>   |
| <ul style="list-style-type: none"> <li>First Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm) (RM1billion) transaction in the world (2010) and that are widely accepted and tradable in the Middle East</li> <li>Largest ever transferrable and tradable variable rate Commodity Murabahah notes issuance by a corporate in the Ringgit market (RM230 million Variable Rate Sukuk Commodity Murabahah)</li> </ul> |     <ul style="list-style-type: none"> <li>Islamic Issuer of the Year</li> <li>Sukuk Issuer of the Year</li> <li>Islamic Deal of the Year</li> <li>Malaysia Deal of the Year</li> <li>Islamic Deal of the Year</li> <li>Best Islamic Deal of the Year</li> <li>Malaysian Innovation of the Year</li> <li>Tawarruq Deal of the Year</li> <li>Best Islamic Commodity-Linked Murabaha</li> </ul> |
| <ul style="list-style-type: none"> <li>Cagamas RM1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm) (2011)</li> <li>RM230 million Variable Rate Sukuk Commodity Murabahah (2011)</li> </ul>   |  <ul style="list-style-type: none"> <li>Islamic issuer of the year</li> <li>Sukuk Issuer of the Year</li> <li>Islamic Deal of the Year</li> <li>Best Islamic Deal, Malaysia</li> <li>Best Islamic Commodity-linked Murabaha</li> </ul>   |
| <ul style="list-style-type: none"> <li>Cagamas 500 million ringgit multi-tenor Sukuk Wakala Bil Istithmar (2013)</li> </ul>   |  <ul style="list-style-type: none"> <li>Highly Commended / Most Innovative Deal</li> </ul>   |



**THE END**



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**Cagamas** 

**25**  
Years of  
Housing the Nation