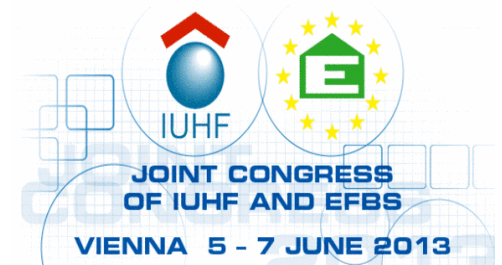




# Cagamas Berhad

The National Mortgage Corporation



28<sup>th</sup> World Congress of International Union for Housing Finance

## Building Sustainable Housing Finance Systems : Malaysian Experience

**Datuk Chung Chee Leong**  
President / Chief Executive Officer



25  
Years of  
Housing the Nation



# Agenda

---

- Introduction
- Overview of Malaysia's Housing Market
  - Malaysian Factsheet FY2012
  - Housing Development in Malaysia
  - Housing Finance System in Malaysia
- Prerequisites to Sustainable Housing System
- Building Sustainable Housing Finance System
  - Calibration of Government Participation
  - Active and Efficient Mortgage Market
  - Development of Secondary Mortgage Market – Cagamas Berhad



## Introduction

- Housing finance plays a critical role in the development process by supporting strong housing markets, while strengthening the financial sector and contributing to overall economic growth.
- Strong housing finance system will give positive impact to overall economic activity and social benefits, such as greater consumer savings, more social and labour mobility, and increased investment.
- It also plays a determinant role in the development of mortgage financing whereby when the market for housing grows, a larger share of the population can become homeowners.





# Building Sustainable Housing Finance Systems Overview of Malaysia's Housing Market



<b>Land Size</b>
329,847 sq km

<b>Population</b>	29.3m
<b>Age Median</b>	26.8 years
<b>Age Distribution</b>	
0 – 14 years	29.4%
15 – 64	65.5%
65 and above	5.1%

<b>GDP</b>	RM937.5b (equiv USD300b)
<b>GDP Growth</b>	5.6%
<b>Contribution to Growth</b>	
- Agriculture	0.1%
- Mining	0.1%
- Manufacturing	1.2%
- Construction	0.6%
- Services	3.5%



Source: Department of Statistics, Malaysia; CIA World Factbook

Using USD/RM Exchange Rate of RM1=USD0.32 as at 30<sup>th</sup> April 2013





# Mortgage to GDP : Malaysia and Developing Asia

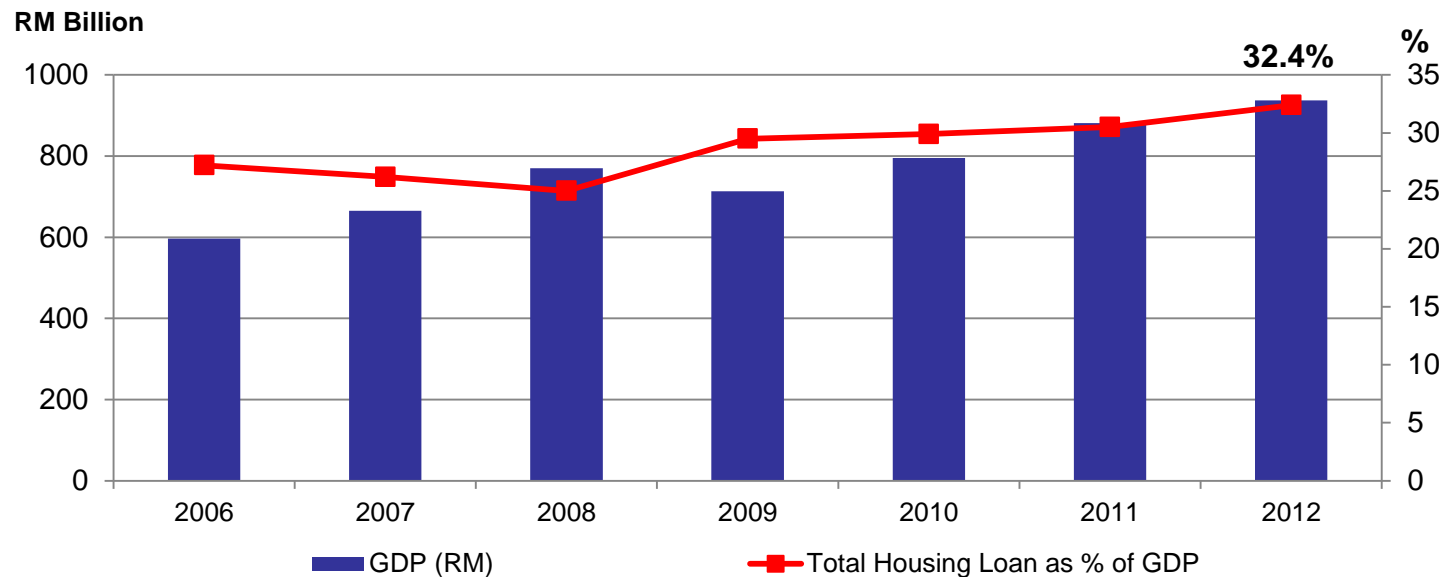
Country	Population	GDP Size	GDP Per Capita	GDP Growth	Mortgage to GDP
	Million	USD Billion	USD Dollar	2012	2012
	2012	2012	2012	%	%
China	1,354	8,227	6,075	7.8	20
India	1,223	1,824	1,491	3.9	9
Indonesia	244	878	3,592	6.2	2
Thailand	64	365	5,678	6.4	17
<b>Malaysia</b>	<b>29</b>	<b>303</b>	<b>10,304</b>	<b>5.6</b>	<b>32</b>
Singapore	5.4	276	51,161	1.3	44

source : IMF, World Economic Outlook Database



## Housing Development in Malaysia

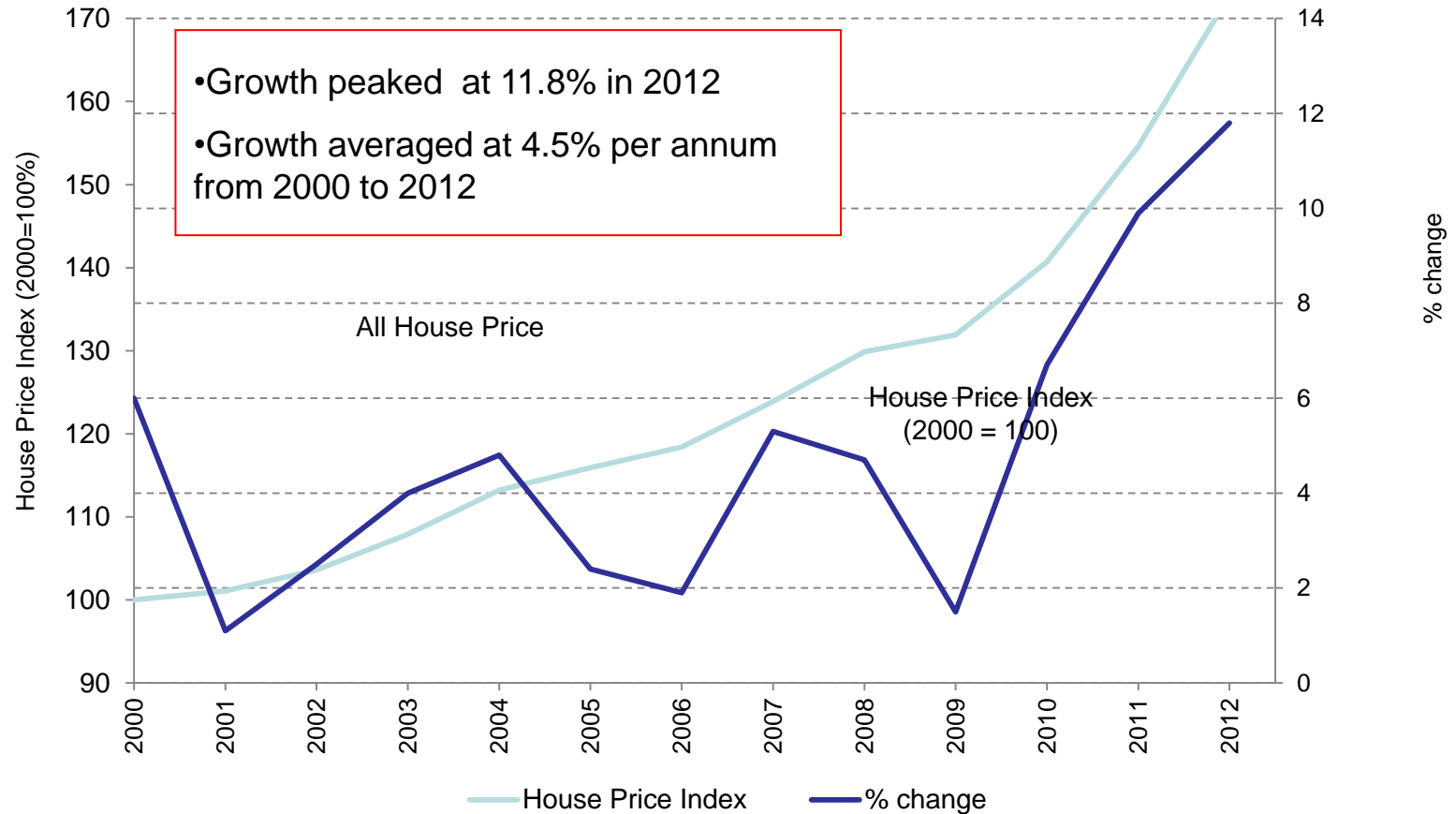
- Private sector plays a dominant role in housing development in Malaysia
- Government via its agencies has been focusing on meeting supply and ensuring home ownership especially for the lower income group
- The chart below illustrates the growth of mortgage debt as a significant contributor to Malaysian GDP - **32% in 2012**



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



## Malaysia's house prices continue to rise, but at a slower pace



Source: National Property Information Centre





## Mortgage Originators

### Private Sector

- Commercial banks (Conventional and Islamic)
- Malaysia Building Society Berhad (MBSB)
- Other Development Financial Institutions

### Public Sector

- Housing Loan Division, Treasury Malaysia

## Mortgage Outstanding in the Banking System



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

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

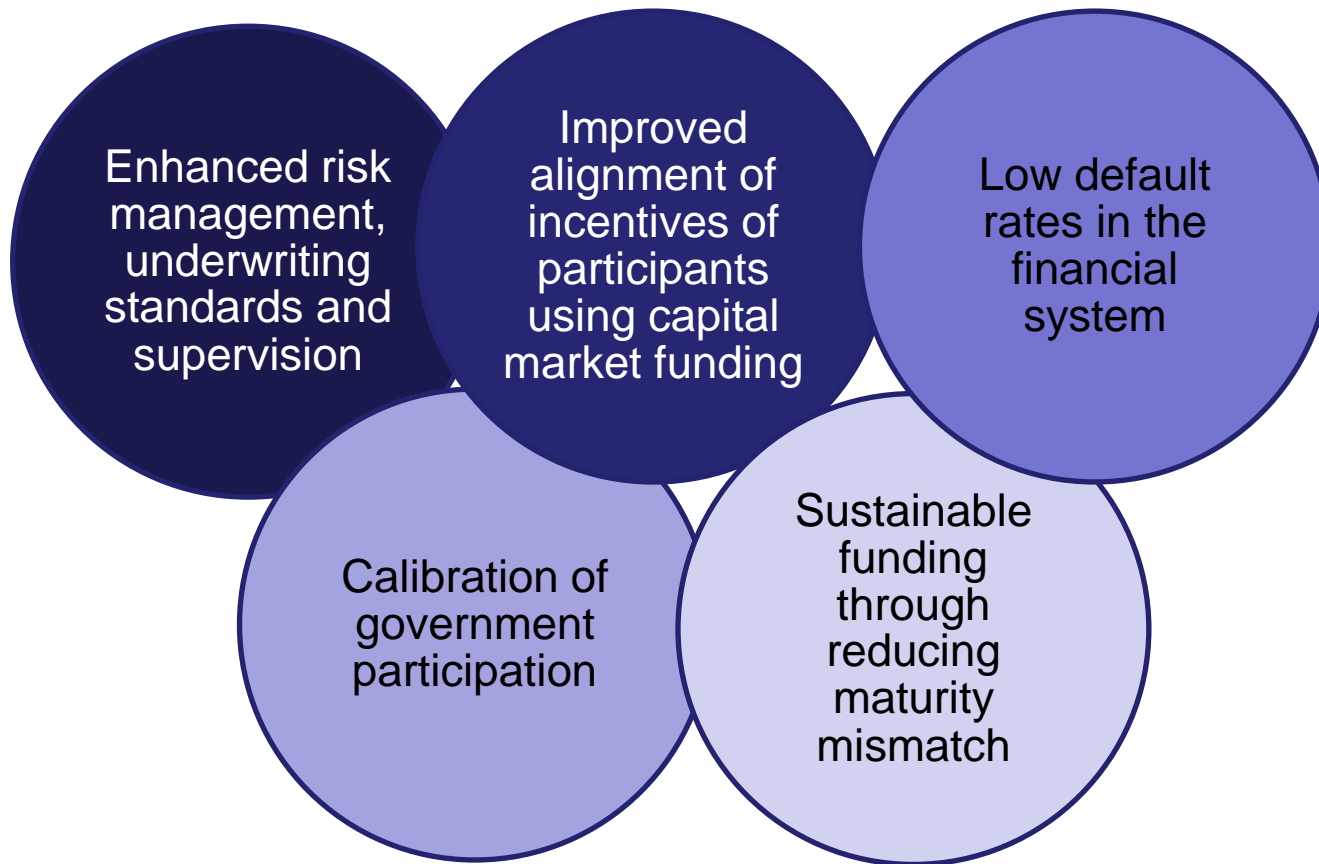


# Building Sustainable Housing Finance Systems Prerequisites to Sustainable Housing System



# Prerequisites of Sustainable Housing Finance System

The basic elements that enable a **well-functioning housing finance system** includes:





# Building Sustainable Housing Finance Systems: Malaysia Experience



Calibration of government participation

Active and efficient mortgage market

Development of Secondary Mortgage Market

Establishment of Cagamas Berhad in 1986



## Government Policy:

### Promote Home Ownership

- Increase supply of housing to the market
- Provision of adequate, affordable and quality houses
- Enhancing accessibility to housing finance supply
- Encourage home ownership

- Objective of housing policy
  - to increase accessibility to adequate, affordable and quality houses
- Actively promote home ownership since the 1970s
  - especially among the lower- and middle-income groups



Year	Measures
1980	Individuals can withdraw from part of their account in the Employees Provident Fund for the purchase of a house or redemption of an existing housing loan
2007	<ul style="list-style-type: none"><li>• Exemption of real property gains tax</li><li>• 50% exemption of stamp duty on purchases of houses below RM250, 000</li></ul>
2008	Monthly withdrawal from Employees Provident Fund (Account 2) for the repayment of housing loans
2009	Tax relief of up to RM10,000 a year for three years on interest paid on housing loans
2012	Revising real property gains tax (RPGT) rate from 10 per cent to 15 per cent
Ongoing	Provision of adequate, affordable and quality houses for all Malaysians in various income levels with the introduction of many affordable housing schemes eg. Perumahan Rakyat 1 Malaysia (PR1MA) and easier access to financing eg. My First Home Scheme

Over the years, the Government continues to introduce new measures to facilitate the housing finance system and also to curb house price speculation



# Home Financing Schemes in Malaysia

Schemes	1Malaysia People's Housing Project (PR1MA)	My First Home Scheme	Housing Credit Guarantee Corporation Berhad	People-Friendly Home	Housing Loan Fund for Lower Income Group	The Low Cost Housing Scheme
<b>Target segment</b>	Applicant must be a Malaysian citizen and at least 21 years old at the time of the application. Those who currently own no more than one property	Young adults entering the workforce with fixed income. 35 years old or less (age next birthday is 36 years old or less)	Borrowers without fixed income, such as farmers and small traders. Malaysian citizen aged 18 years old and above	Low income group who owns a piece of land	Low income group that are not eligible for any other loan facility	Malaysian permanent estate workers
<b>Salary Range</b>	Open to Individuals or families (husband and wife) with an average monthly household income of between RM2,500-RM7,500	Gross income of not more than RM5,000 per month for single borrower and gross income of not more than RM10,000 per month for joint borrowers	Min RM1,000 per month	Household gross income does not exceed RM1,500	Household gross income between RM500 and RM1,200	n/a
<b>Service/Product Offering</b>	RM1.9 billion to be allocated to build 123,000 affordable housing units in strategic locations	Guarantees 10% on a "first loss" on mortgage loans given by banks (Guarantees provided by Cagamas to FIs)	Guarantees mortgage loans given by banks	- 1/3 funded by Govt - 2/3 via zero interest financing	Funding to build a new house with a cost not exceeding RM25,000 or to buy a fully built low cost house	Housing loan scheme
<b>Eligible Property</b>	Homes ranging from RM100,000 to RM400,000	Housing valued between RM100k to RM400k	Low/ Medium Cost residential property	1000 sq ft 3 bedroom 2 bathroom single storey bungalow	Low cost house	Low cost house
<b>Max Loan Amount</b>	100%	100%	100% or RM100,000	RM76,000	RM20,000	RM60,000
<b>Lending Rate</b>	4%	Respective BLR of the offering financial institution	Respective BLR of the offering financial institution	Zero interest	- Zero interest on first RM10,000 - 4% service charge on 2nd RM10,000	4%





## Strengthening the Housing Finance System

---

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

The regulatory enhancements include:

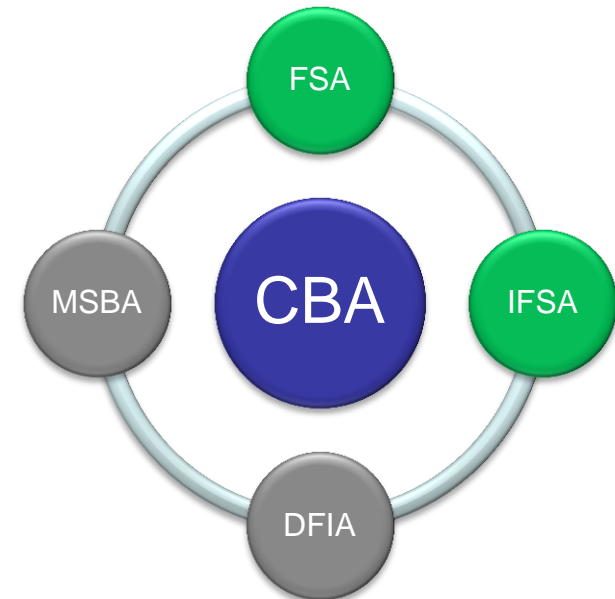
- 1. Strengthen risk management standard and corporate governance practices by financial market players**  
Focus accorded towards enhancing capital and liquidity standards of financial institutions as well as raising their governance and risk management standards.
- 2. Effective policies in place for development of housing finance system**  
Strengthened the financial infrastructure in housing finance system including in the development of a Secondary Mortgage Market to help the primary lenders, maintaining low default rates in the system and effective financial safety net
- 3. Comprehensive and robust regulatory and supervisory framework and effective surveillance that is forward looking and focused on addressing the risks to overall financial stability**



## Robust Regulatory and Legal Environment

To ensure soundness and robustness of the housing finance system lies with the strong 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, capital charge on mortgage financing according to its loan to value and priority sector lending guidelines which set the financing terms and condition for the purchase of low cost house.
- Vested with comprehensive legal powers under legislation to regulate and supervise the housing finance. Under the loan/financing contracts, the financiers generally have the avenue to:-
  - ✓ transfer/assign its rights vested in the property to a third party; and
  - ✓ Enforce legal action ie; foreclosure proceedings, bankruptcy upon any event of default.



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



- Mandated lending to priority sectors including affordable housing was introduced by the Central Bank in 1976.
- Aimed at increasing the access of credit for affordable housing as well as providing them with subsidized access to such credit
- Maximum margin of 1.75% above BLR and maximum profit rate of 9% were imposed for lending for houses costing not more than RM100,000 in Peninsula Malaysia and RM120,000 in Sabah and Sarawak.
- Guidelines were issued by the Central Bank to the banking system requiring banking institutions to internally set lending/financing target for the priority sectors which include housing loan to low cost houses.

## Other recent measures introduced by the Central Bank:

- **Responsible Lending Guidelines**  
The guidelines require financial institutions to make assessments of a borrower's ability to afford financing facilities based on a prudent debt service ratio as inputs to their credit decisions.
- Impose the loan-to-value (LTV) ratio of 70% for 3<sup>rd</sup> house purchased

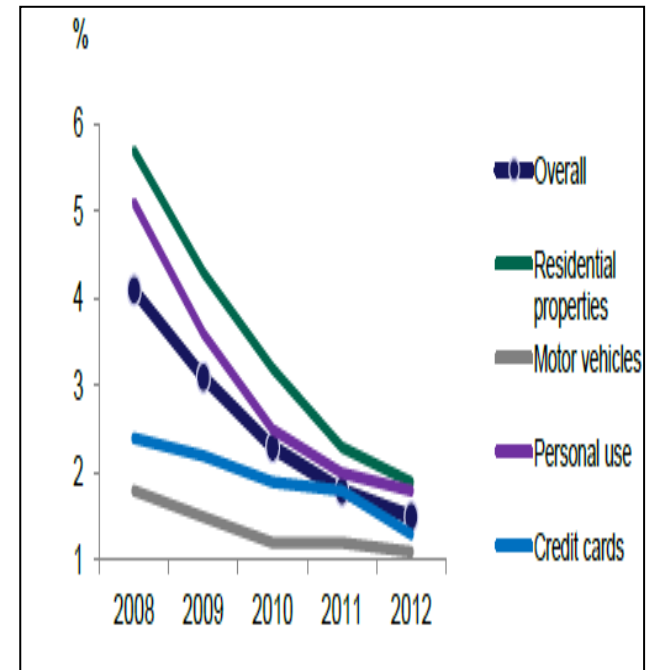
# Benefits of Mortgage Lending to Primary Lenders

1. Low credit risk as lending is secured against properties where margin of financing is generally < 90%.
2. Low capital charge on mortgage lending

Capital Charge	LTV
35%	<80%
50%	80%-90%
100%	>90%

3. Credit risk is further mitigated by geographical location of mortgaged properties where only prime/ good resale value areas are generally approved by banks based on their strict underwriting criteria.
4. Housing loans generally have low default rate as housing needs are basis necessity among most families.

## Banking System : Impairment Ratio for Household Loans



Lower delinquencies, gross impaired loan ratio for residential properties improved to 2%



Building Sustainable Housing Finance Systems

# Development of Secondary Mortgage Market: Cagamas Berhad



## Secondary Mortgage Market - Background

- 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



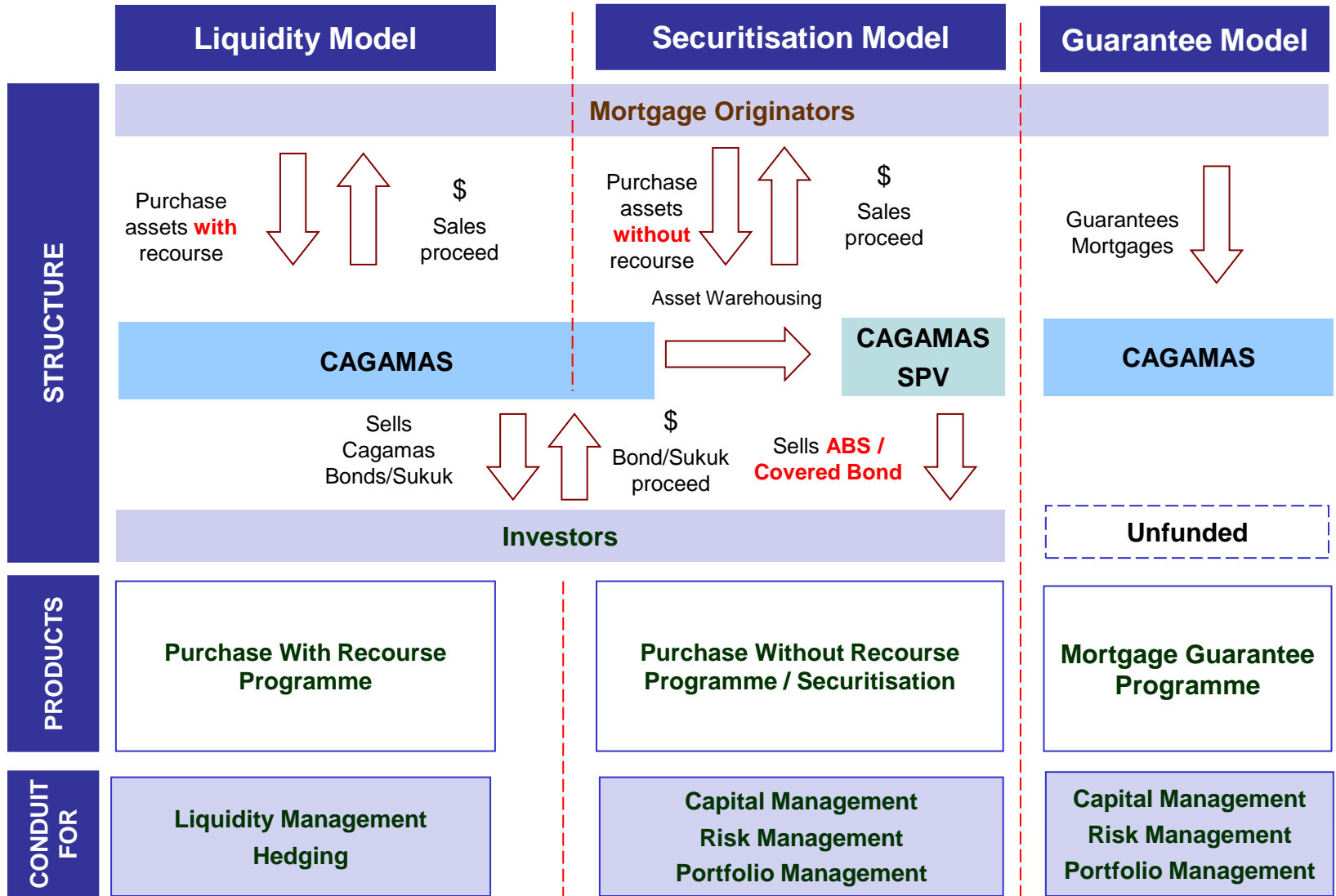
- Commenced operations in 1987 as the National Mortgage Corporation
- Objective

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



- Cagamas issues debt securities 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' debt securities continue to be assigned the highest ratings of AAA by RAM Rating Services Berhad and Malaysian Rating Corporation Berhad, denoting its strong credit quality.

- *Sovereign Malaysia rating by international rating agencies are Fitch (A-), Moody (A3) and Standard & Poor (A-)*







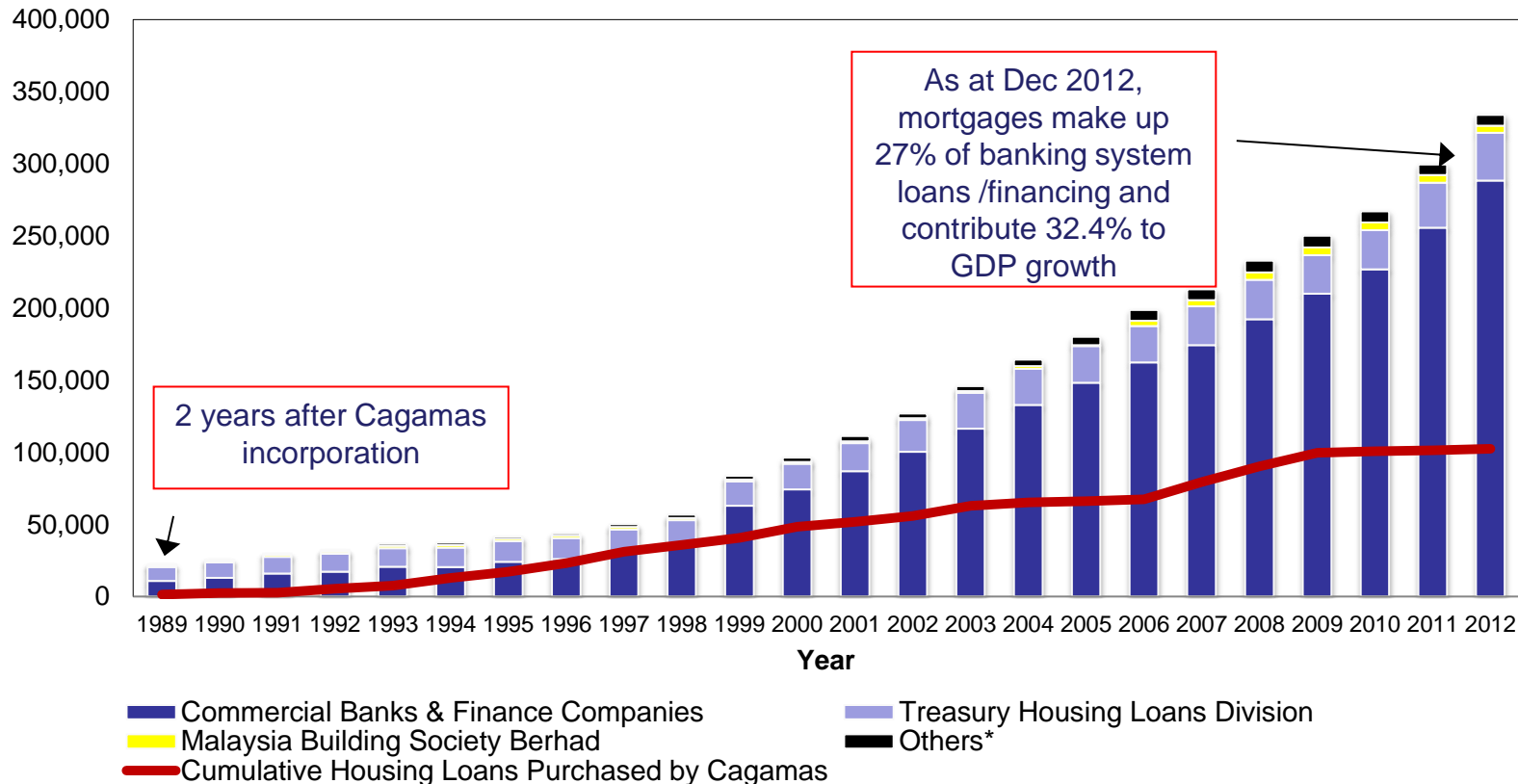
## Cagamas' role in supporting sustainable housing finance system in the primary market

- Provide liquidity and hedging to mortgage financier – PWR programme
- Provide lower cost of funds – AAA funding and high demand of Cagamas Securities.
- Narrow the gap between the maturity structure of the housing loans and the source of funds
- Link the mortgage market to the capital market securities – development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic
- Develop innovative structures for mortgage financier – mortgage guarantee under the **My First Home Scheme (SRP)** to promote home ownership among young working adults



Cagamas as important source of funding the mortgage market.

RM Million



Source: BNM Annual Report, various years

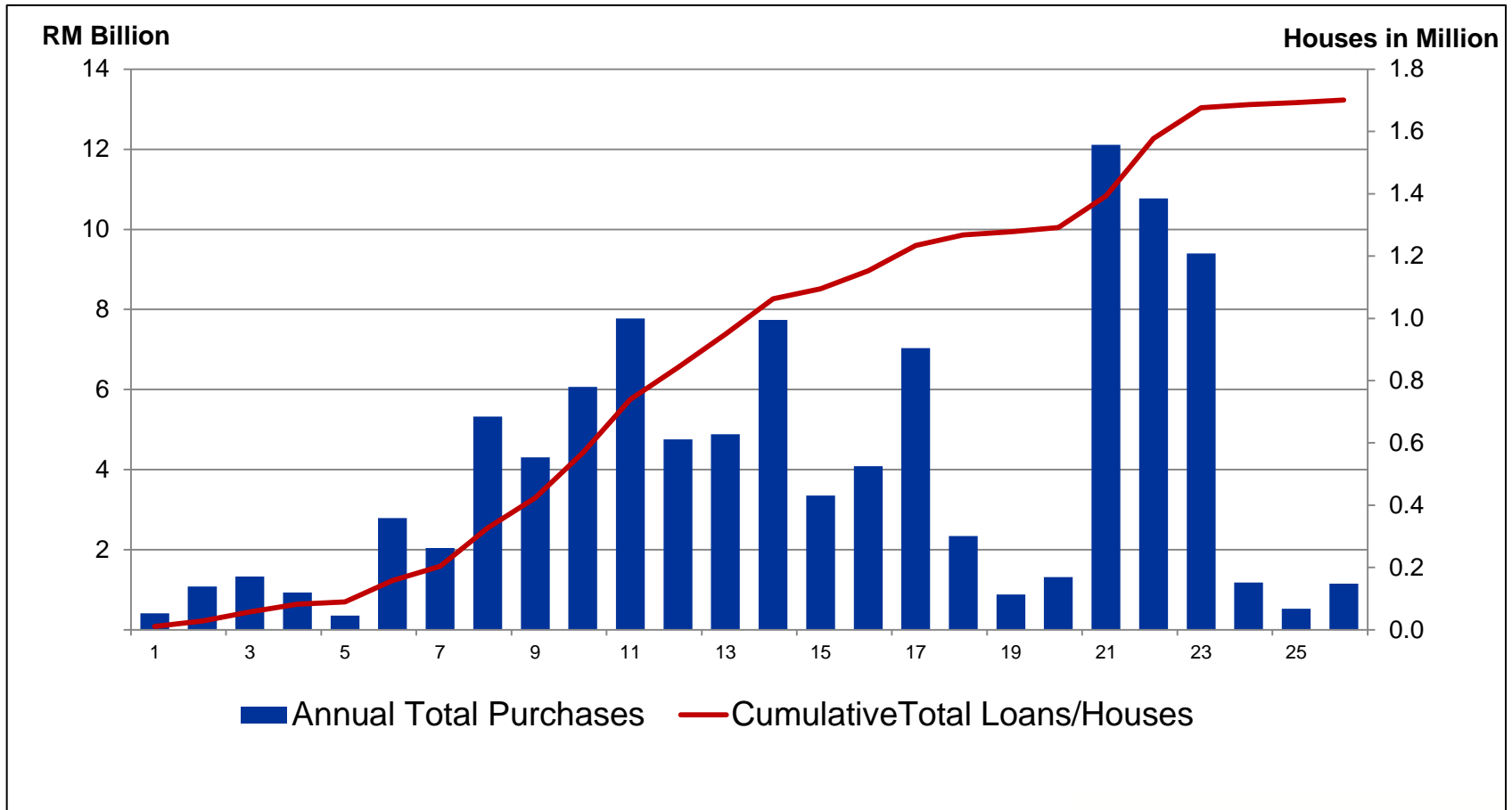
\* Others inclusive of Bank Kerjasama Rakyat Malaysia Berhad, Borneo Housing Mortgage Finance Berhad, Bank Simpanan Nasional and Sabah Credit Corporation





# Cumulative Refinanced Housing Loans

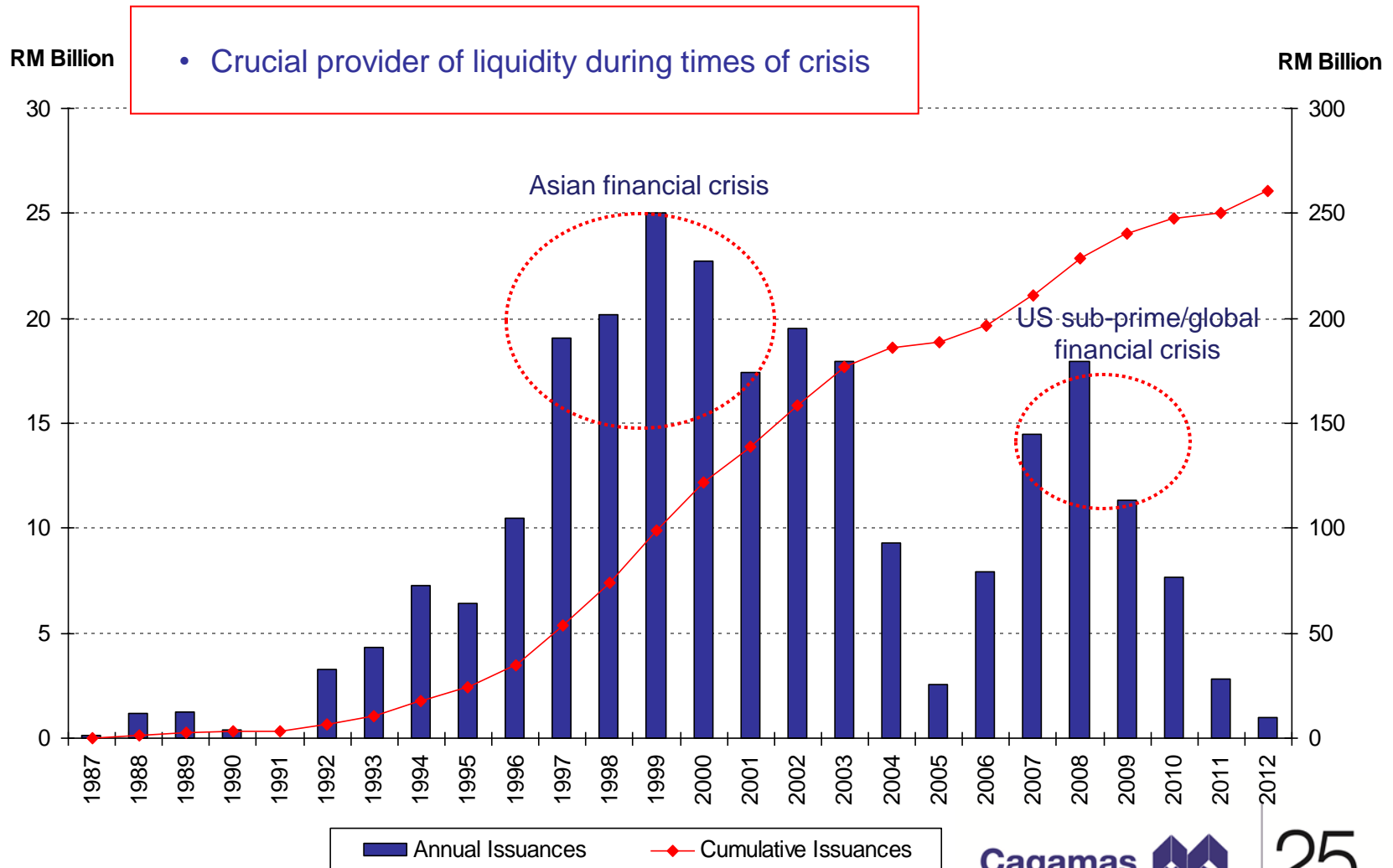
Cagamas has cumulatively refinanced housing loans in the secondary market equivalent to **RM104 billion** or around **1.7 million houses**





# Liquidity Provider to the Primary Market

Provided liquidity of about **RM265.6 billion** to the financial sector to date\*



\* As at December 2012



## Key Financials as at 31 December 2012

- Profit before tax: RM293 million (equiv USD95 million)
- Asset size: RM23.3 billion (Islamic assets: 53% of total portfolio) – (equiv USD7.6 billion)
- Shareholders' funds: RM2.2 billion – (equiv USD0.71 billion)
- Return on Equity (ROE): 10.1%
- Risk Weighted Capital Ratio (RWCR): 24.4%

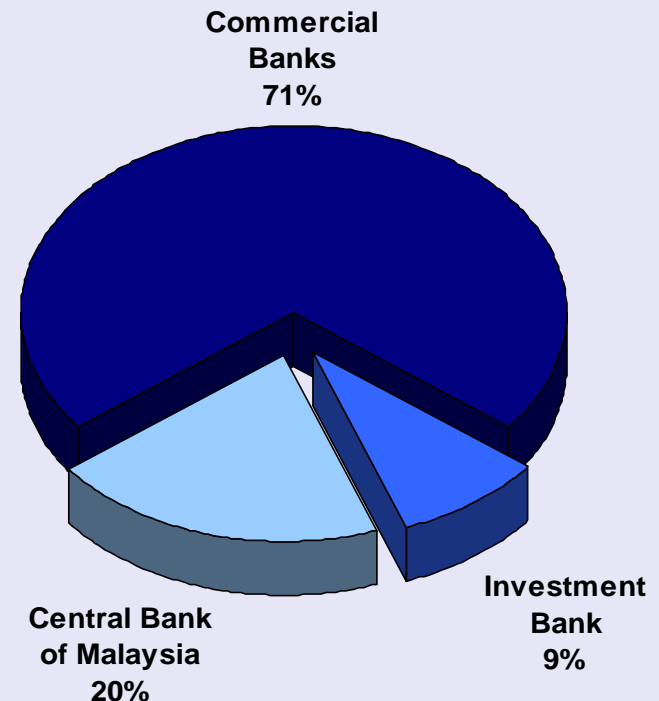
## Corporate Bond and Sukuk Issuance (Cagamas Group) as at 31 December 2012

- Issued RM265.6 billion/ equiv USD86.19 billion bonds to date (Sukuk: RM34.4 billion/ equiv USD11.16 billion)
- Outstanding Bonds of RM26.7 billion/ equiv USD8.66 billion (Sukuk of RM14.4 billion / equiv USD4.69 billion)
- Accounts for 22% of AAA Outstanding Bonds (Sukuk 16% of AAA Outstanding)

## Asset-Backed Securities (ABS) Issuance

- Issued RM10.2 billion / equiv USD3.31 billion Residential Mortgage-Backed Securities (RMBS) (Islamic RMBS – RM4.2 billion / equiv USD1.36 billion)
- Outstanding RMBS of RM6.03 billion /equiv USD1.96 billion (Islamic RMBS of RM2.85 billion / equiv USD0.92 billion )
- Accounts for 67% of AAA outstanding ABS (84% of AAA Islamic ABS)

## Shareholding Structure as at 31 December 2012





## Conclusion




---

To build a sustainable housing finance system can be supported by :

1. Government's involvement
2. Active and efficient mortgage market regulated by the Central Bank
3. Availability of secondary liquidity facility to provide long term stable funding



THE END

AWARDS WON	
2005	  
2006	  
2007	   
2008	 
2009 - Current	   



This presentation was prepared exclusively for the benefit and internal use of the recipient. This presentation does not carry any right of publication or disclosure to any other party. Neither this presentation nor its content may be used for any other purpose without prior written consent of Cagamas Berhad (“Cagamas”).

The information in this presentation reflects prevailing conditions and our views as of this date, all of which are accordingly subject to change. In preparing this presentation, we have relied upon and assumed, without independent verification, the accuracy and completeness of any information available from public sources.

Except as required by law, Cagamas and their officers, employees, agents and advisers do not accept any responsibility for or liability whatsoever in respect of any loss, liability, claim, damage, cost or expense arising as a consequence (whether directly or indirectly) of reliance upon any information or any statement or opinion contained in this document, nor do they make any representation or warranty (whether expressed or implied) as to the accuracy or completeness of this documents or its contents. This presentation is not an offer documents and cannot give rise to any contract.





**For more information, please contact us at:**

---

**Cagamas Berhad (157931-A)**

**Level 32, The Gardens North Tower  
Mid Valley City, Lingkaran Syed Putra  
59200 Kuala Lumpur  
MALAYSIA**

**Tel: +603 - 2262 1800**

**Fax: +603 - 2282 9125**

**[www.cagamas.com.my](http://www.cagamas.com.my)**