



Cagamas Berhad (157931-A)

The National Mortgage Corporation

NHB-ABUHF International Conference 2013

Funding Housing :
Development of Secondary Mortgage Facility in Malaysia

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President/Chief Executive Officer

12 April 2013



25
Years of
Housing the Nation



Agenda

- About Cagamas
- Regulatory Environment of Cagamas
- Business Model
- Roles of Cagamas
- Facts and Figures
- Awards and Accolades



About Cagamas

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

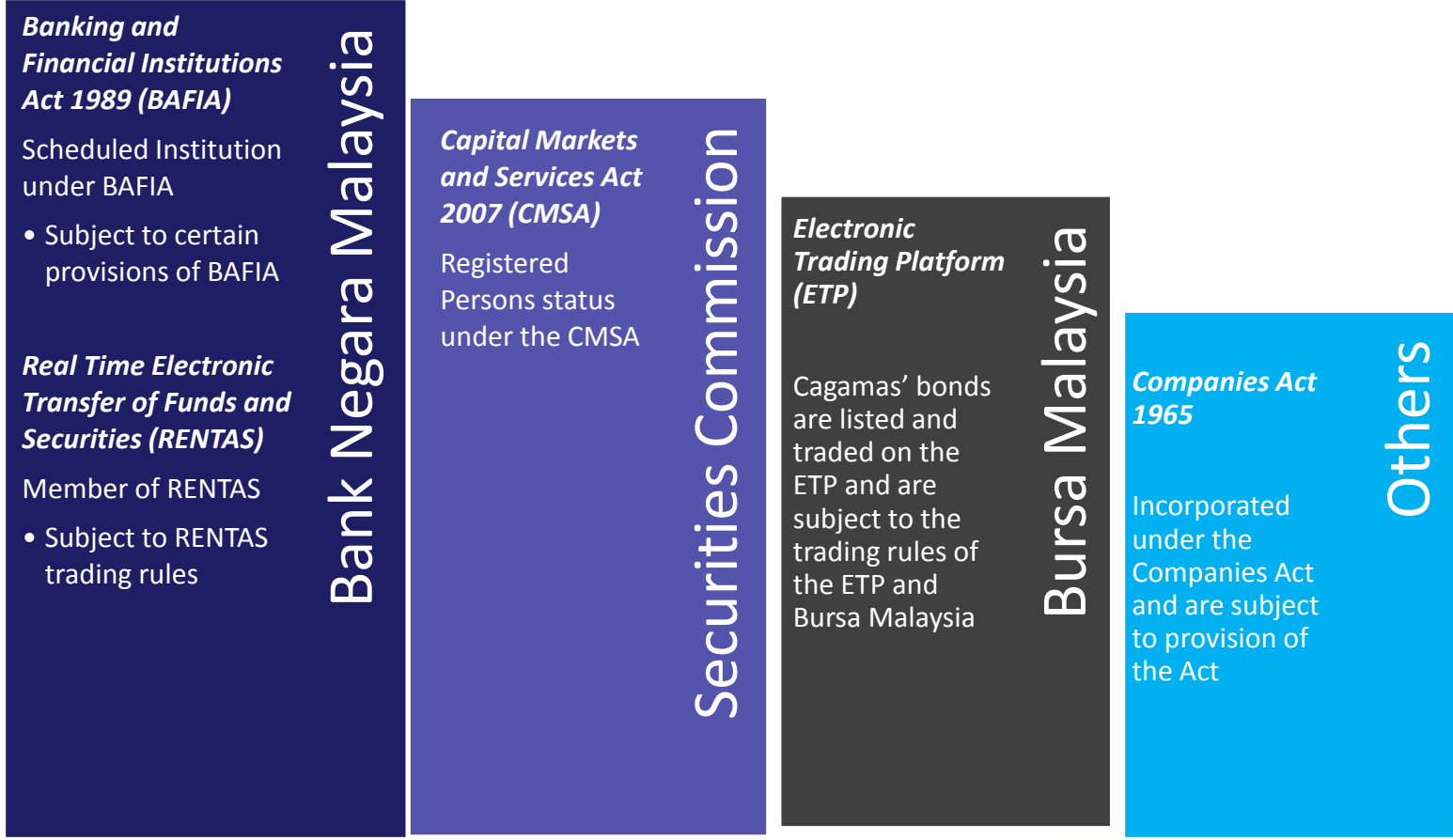
To promote the broader spread of house ownership and growth of the secondary mortgage market in Malaysia



- Cagamas issues debt securities to finance the purchase of housing loans from financial institutions and non-financial institutions.
- The provision of liquidity to financial institutions at a reasonable cost to the primary lenders of housing loans encourages further expansion of financing for houses at an affordable cost.
- The Cagamas model is well regarded by the World Bank as a successful secondary mortgage liquidity facility.

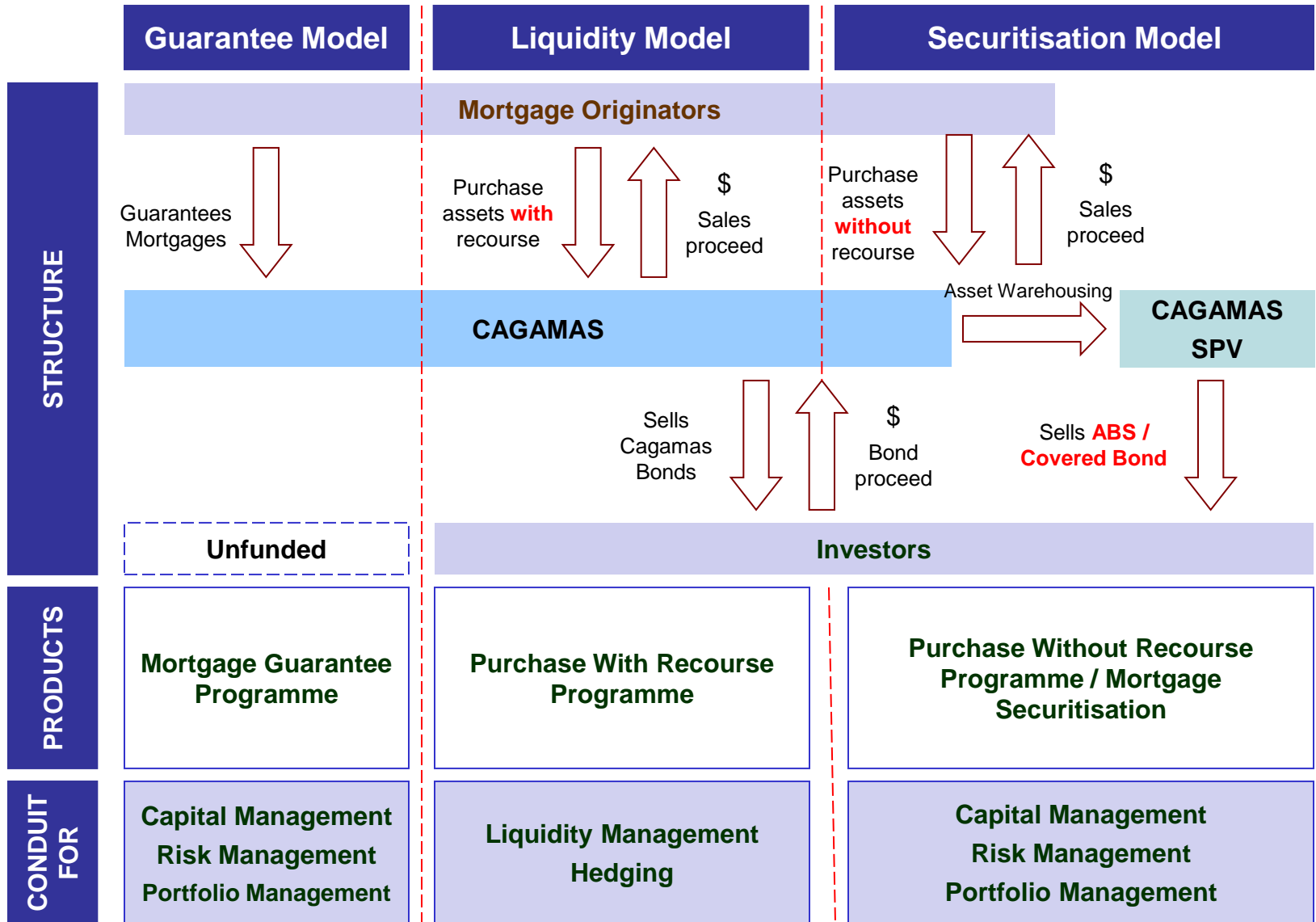


Regulatory Environment of Cagamas





Business Model





Business Model (cont)

- Cagamas purchases both **conventional** and **Islamic** loans / financing and fund the purchases through the issuance of conventional and Islamic debt securities.
- 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
- Islamic House Financing
- Industrial Property Loans
- Hire Purchase and Leasing
- Islamic Hire Purchase
- Islamic Personal Financing
- Rahn Financing

Purchase without Recourse (PWOR)

- Conventional Housing Loans
- Islamic House Financing
- Hire Purchase
- Islamic Hire Purchase

Mortgage Guarantee Programme (MGP)

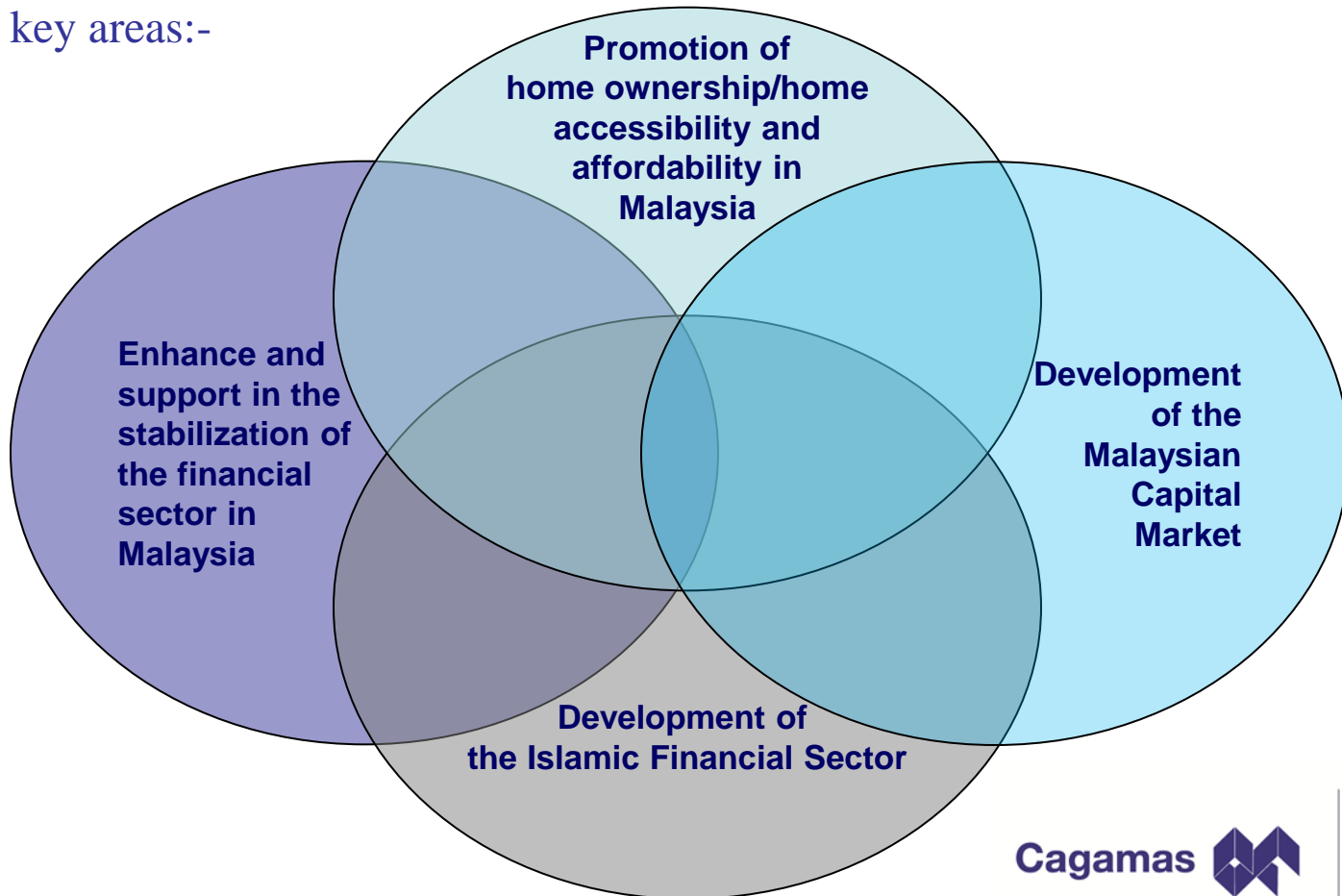
- Conventional Housing Loans
- Islamic House Financing



Roles of Cagamas

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

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





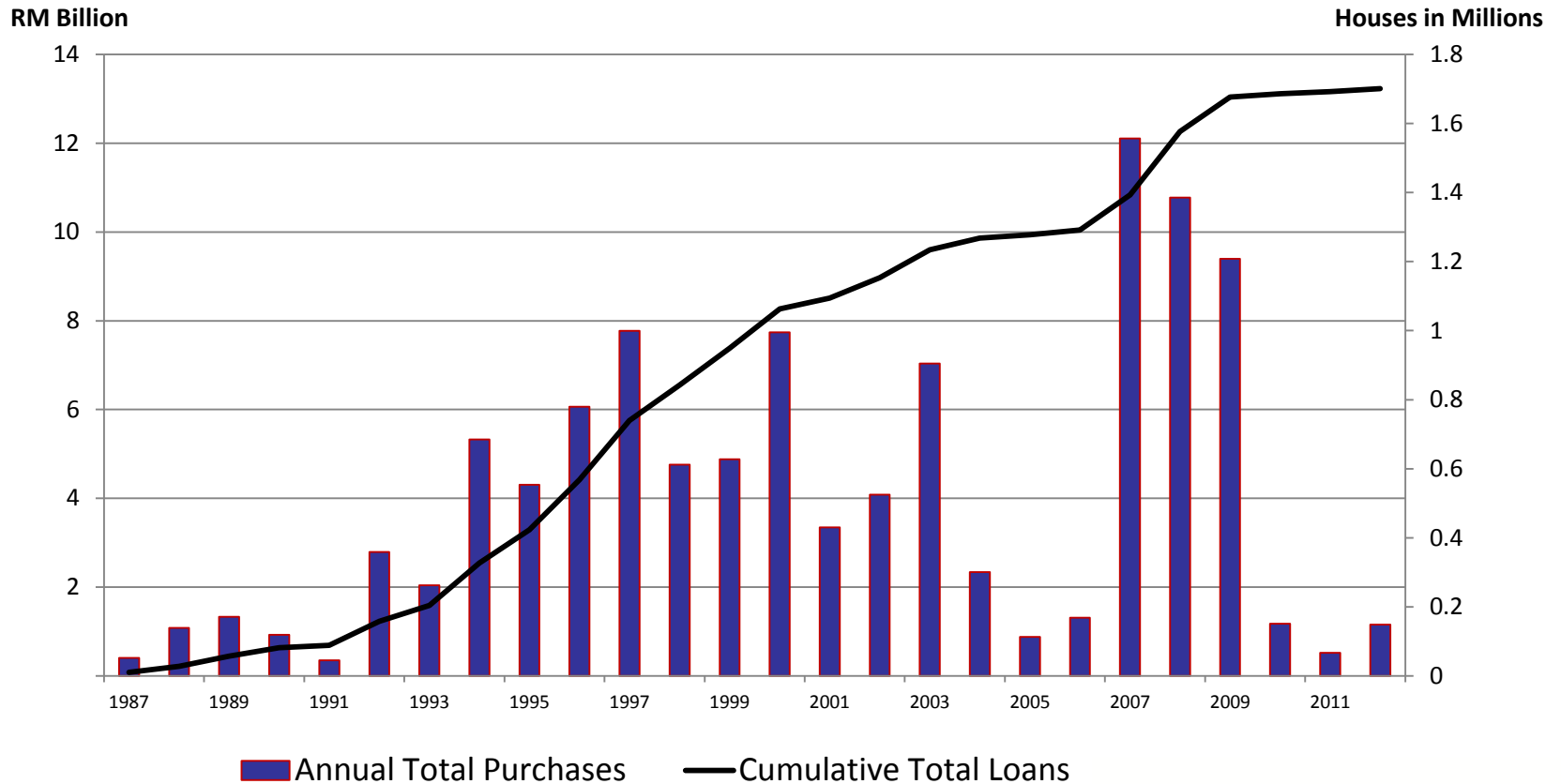
Roles of Cagamas in developing the secondary mortgage facility in Malaysia:

- Promotion of home ownership/home accessibility and affordability in Malaysia
 - Provide liquidity and hedging to mortgage financier – PWR programme
 - Provide match funding – multi-tenor PDS
 - Provide lower cost of funds – AAA funding
 - Link the mortgage market to the capital market – development of the RMBS market
 - Develop innovative structures for mortgage financier – mortgage guarantee under the 'My First Home Scheme' to promote home ownership among young working adults



Roles of Cagamas

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





Roles of Cagamas

Roles of Cagamas in developing the secondary mortgage facility in Malaysia

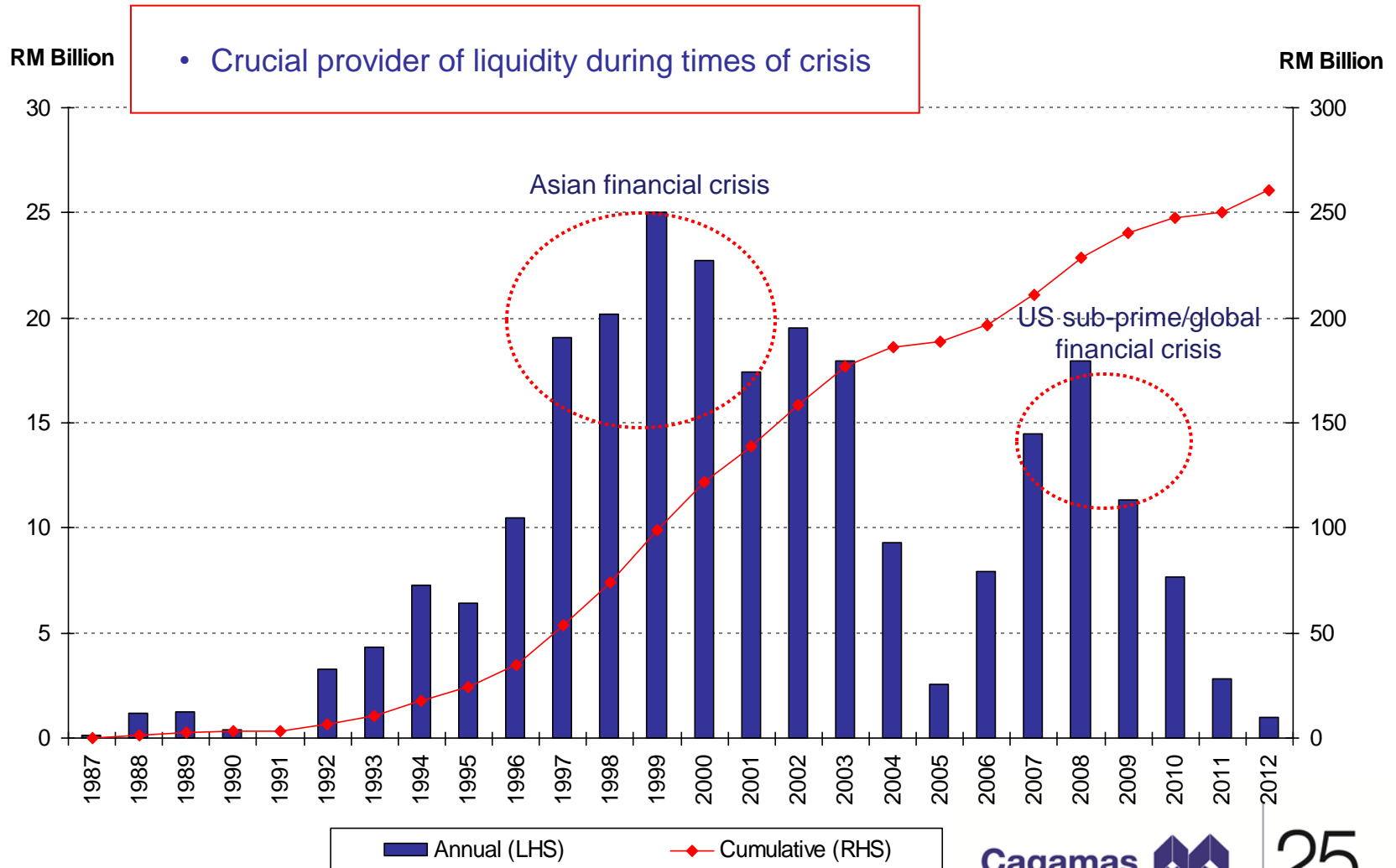
– Enhance and support in the stabilization of the financial sector in Malaysia

- Provide credit and portfolio risk management solutions
 - Provide capital management solutions
 - Conduit to remove systemic risk in the financial sector
 - Conduit for best practices & setting up of standards – development of conforming financing standards
- } PWOR and MGP



Roles of Cagamas

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



* As at December 2012





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

- Development of the Malaysian Capital Market
 - Enhance the quality of capital market – structuring of high investment grade instruments
 - Approx. 22% of AAA PDS market
 - Approx. 67% of AAA ABS market
 - Contribute to the depth and breadth of capital market – structuring of sophisticated instruments
 - Significant player in the debt securities market
 - 2nd largest issuer of bonds after the Government of Malaysia



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

- 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 Islamic debt securities market
 - Approx. 16% of AAA Sukuk market
 - Approx. 84% of AAA Islamic ABS market



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

- Others

- 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)
- Providing an alternative form of investment in quality private debt securities
 - Large volume of highly-rated multi-tenor Cagamas debt securities has given investors new instruments for investing their surplus funds



Key Financials as at 31 December 2012

- Profit before tax: RM293 million (*USD95 million*)
- Asset size: RM23.3 billion (Islamic assets: 51% of total portfolio) – (*USD7.6 billion*)
- Shareholders' funds: RM2.2 billion – (*USD0.71 billion*)
- Return on Equity (ROE): 9.84%
- Risk Weighted Capital Ratio (RWCR): 24.4%

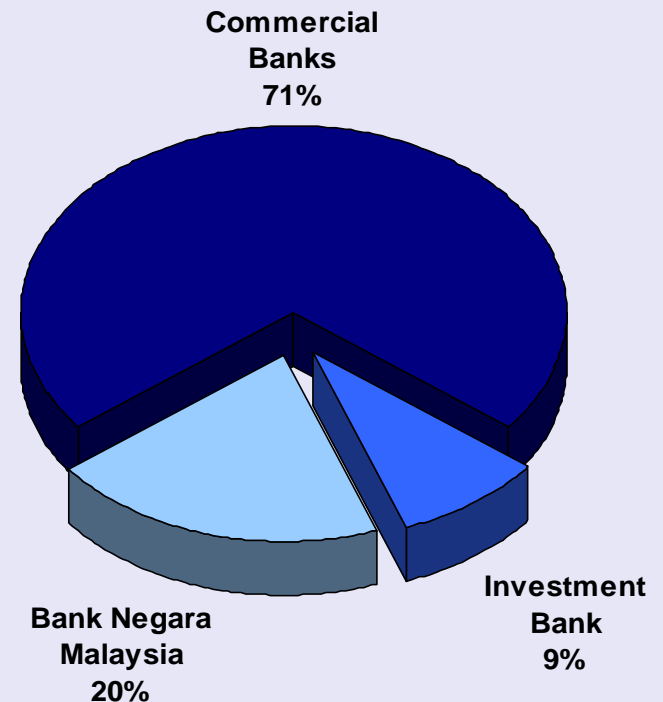
Corporate Bond and Sukuk Issuance (Cagamas Group) as at 31 December 2012

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

Asset-Backed Securities (ABS) Issuance

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



















Shareholding Structure as at 31 December 2012





Awards & 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
First residential mortgage backed securities (RM1.55 billion) transaction in Malaysia (2004)	   <ul style="list-style-type: none"> • Best Local Currency Bond Deal of the Year • Best Local Currency Bond in Asia • Best Malaysian Ringgit Bond
First rated Islamic Home Financing Backed Sukuk Musyarakah (RM2.05 billion) transaction in the world (2005)	   <ul style="list-style-type: none"> • Best Malaysian Deal • Best Domestic Securitisation Deal • Best Islamic Finance Deal • Islamic Finance Deal of the Year • New Islamic Benchmark Deal of the Year
First Synthetic Securitisation of SME Loans (RM600 million) transaction in the ASEAN region (2007)	    <ul style="list-style-type: none"> • Malaysia Capital Markets Deal of the Year • Asian Deal of the Year • Best Domestic Securitisation • New Structured Finance Benchmark Deal
Largest and longest dated corporate Sukuk transaction in Malaysia (2008) (RM2.015 billion Sukuk Commodity Murabahah)	  <ul style="list-style-type: none"> • Issuer of the Year • Most Innovative Islamic Finance Deal
Largest multi-tenured Sukuk Commodity Murabahah transaction in 2009 (RM915 million Sukuk Commodity Murabahah)	  <ul style="list-style-type: none"> • Tawarruq Deal of the Year • Most Innovative Deal
First Sukuk al-Amanah Li al-Istithmar (RM1 billion Sukuk ALIm) transaction in the world (2010) and that are widely accepted and tradable in the Middle East	  <ul style="list-style-type: none"> • Islamic Issuer of the Year • Sukuk Issuer of the Year • Islamic Deal of the Year • Malaysia Deal of the Year • Islamic Deal of the Year • Best Islamic Deal of the Year • Malaysian Innovation of the Year
Largest ever transferable and tradable variable rate Sukuk issuance by a corporate in the Ringgit market (2010) (RM230 million Variable Rate Sukuk Commodity Murabahah)	  <ul style="list-style-type: none"> • Tawarruq Deal of the Year • Best Islamic Commodity-Linked Murabaha

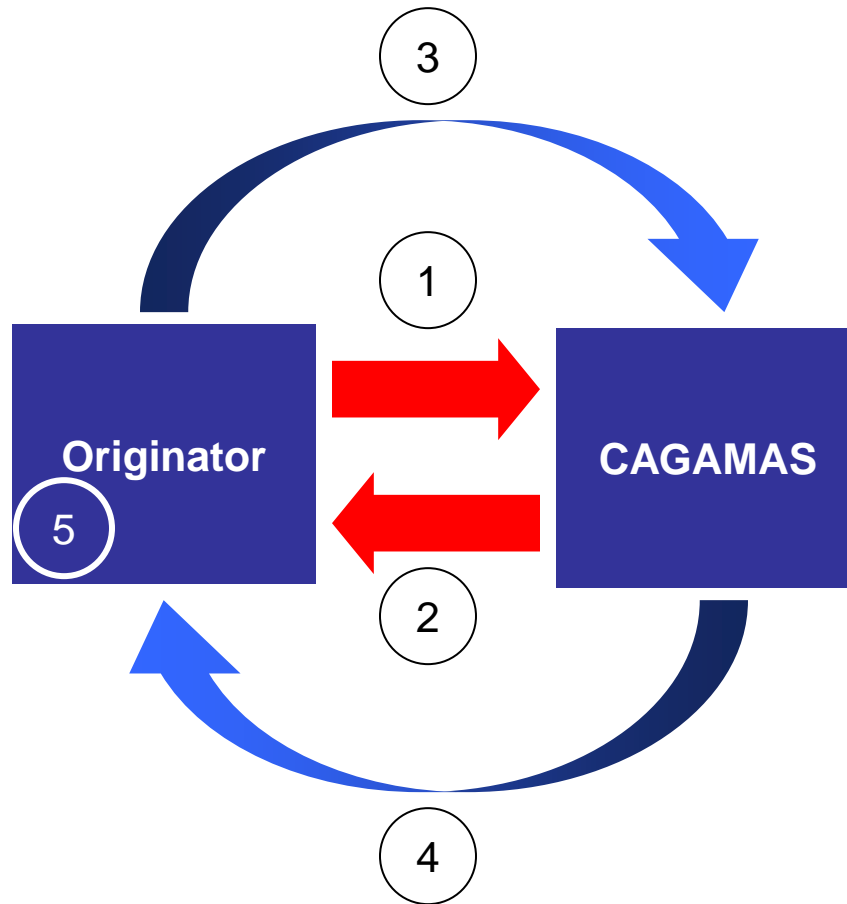
Other Achievements	
Largest funding programme of its kind (RM60 billion CP/MTN programme) in the ASEAN region (2007)	<ul style="list-style-type: none"> • Longest programme tenure in Malaysia (40 year MTN programme)
First Sukuk Mudharabah (RM30 million) transaction in the world (1994)	<ul style="list-style-type: none"> • First Islamic security issued based on the principle of Mudharabah



THE END



Purchase With Recourse (PWR) Structure



1. Originator sells loans/financing to Cagamas on a **with recourse** basis
2. Cagamas pays cash or bonds as consideration for loans/financing
3. Post sale, Originator continues to service customer and remits repayments to Cagamas
4. Cagamas pays servicer fee to Originator upon receipt of loan/financing collection
5. Originator remains responsible for any losses arising from defaults by borrower and obliged to repurchase the loans/financing upon maturity of the contract

▪ In substance, Cagamas funds FI against security of the underlying loans/financing



Key Features and Benefits of PWR

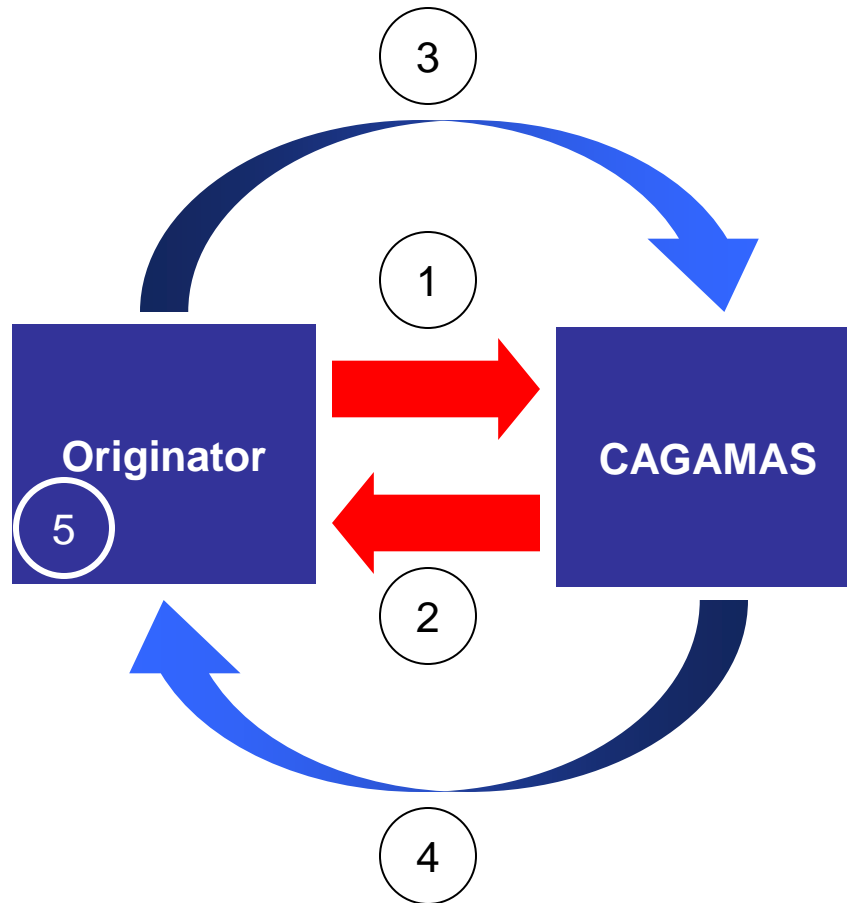
Features

- Structured as true sale of debts. However, the structure does not qualify as Asset Backed Securities (ABS) due to its recourse feature
- Sale is subject to a Credit Limit established for each FI
- Purchases based on Cagamas rate i.e. Bond Yield plus Cagamas' margin
- Loans/Financing sold to Cagamas can still be used for key indicative and market share calculation purposes

Benefits

- Hedge interest / profit rate risks
- Alternative funding to grow assets
- Able to price financing products competitively
- Proceeds from the sale are deductible from Eligible Liabilities base

Purchase Without Recourse (PWOR) Structure



1. Originator sells loans/debts to Cagamas on a **without recourse** basis
2. Cagamas pays cash or bonds as consideration for loans/debts
3. Post sale, Originator continues to service customer and remits repayments to Cagamas
4. Cagamas pays servicer fee to Originator upon receipt of loan/debt collection
5. Originator saves on Capital Charge after loans/debts sold to Cagamas



Key Features and Benefits of PWOR

Features

- Outright sale to Cagamas, with no recourse for default risk
- Purchases based on Cagamas rate i.e. Bond Yield plus Cagamas' margin
- Standardised structure and documentation
- Pricing from par to premium, depending on quality of assets
- Cash purchase or settlement by bond/Cagamas Islamic securities
- Excess spread paid to FI as servicer fee
- FI will be appointed as servicer for loans/financing sold. FI/servicer remits collections to Cagamas

Benefits

- Transfer of credit risk
- Full capital relief
- Management of portfolio concentration risk
- Shift to fee based income
- Improve Return on Asset/Return on Risk Weighted Capital
- Improves earning stability
- Purchase at premium – locking in profits to the Seller
- Stabilising marketing strategy
- No transaction cost
- Fast turnaround time
- Flexible transaction



Accounting Treatment – PWR & PWOR

PWR

- Cash receipt from sale of loans
- Not an “outright” sale – liability created in FI’s balance sheet as a recourse obligation/repurchase commitment
- No reduction in loan asset in balance sheet
- No transfer of credit risk – no capital relief benefits

PWOR

- Cash receipt from sale of loans
- True sale – no liabilities created
- Reduction in asset in balance sheet
- Complete transfer of credit risk – Full capital relief benefits from assets sold



Mortgage Guarantee Programme (MGP)

- MGP offers ‘first loss’ protection on a mortgage portfolio while the mortgage assets remain on the Originator’s books.
- By reducing the credit risk on their mortgage loan/financing portfolio, Originators can improve their Risk Weighted Capital Ratio (“RWCR”).
- For illustration, regulatory treatment for MGP is highlighted below:
- ✓ **Risk Weighting** as per Bank Negara Malaysia (BNM) Guideline for Capital Adequacy Ratio Calculation – Standardised Approach (“SA”)
- ✓ **Current capital charge** for mortgage loan/financing (SA)/(Pre-MGP)

Loan to Value (LTV)	Capital Charge
>90% LTV	75%
80% LTV – 90% LTV	50%
< 80% LTV	35%



MGP Illustration

