



Cagamas Berhad (157931-A)

The National Mortgage Corporation

Housing Finance in Malaysia and Role of Cagamas in the Development of Secondary Mortgage Market in Malaysia

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25
Years of
Housing the Nation



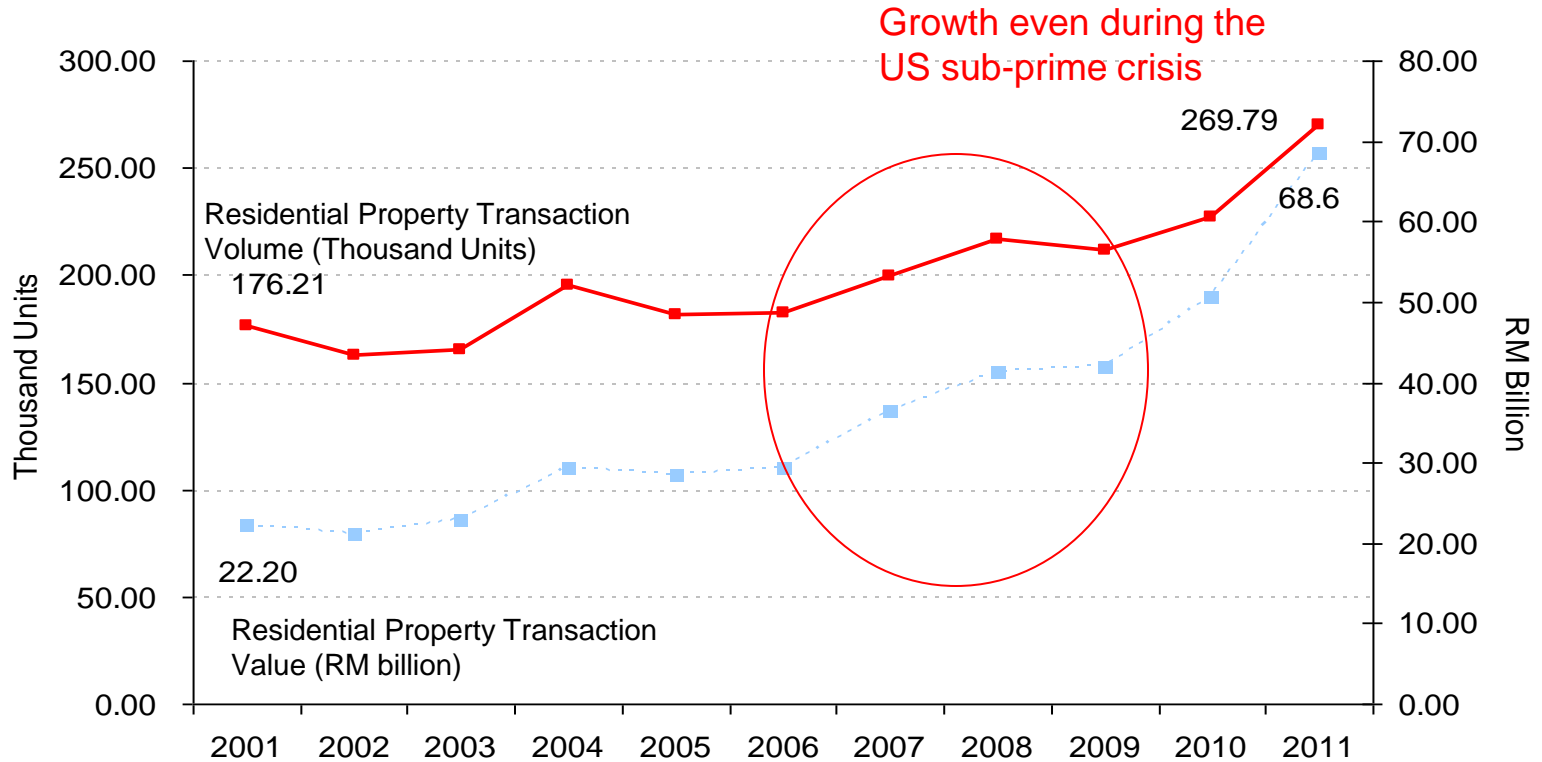
- **Malaysian Housing Market**
- Malaysian Primary Mortgage Market
- Malaysian Secondary Mortgage Market
 - The Malaysian Experience: Cagamas Berhad
- Role & Impact of Cagamas



Malaysian Housing Market

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Significant contributor to GDP – 11.7% in 2011*



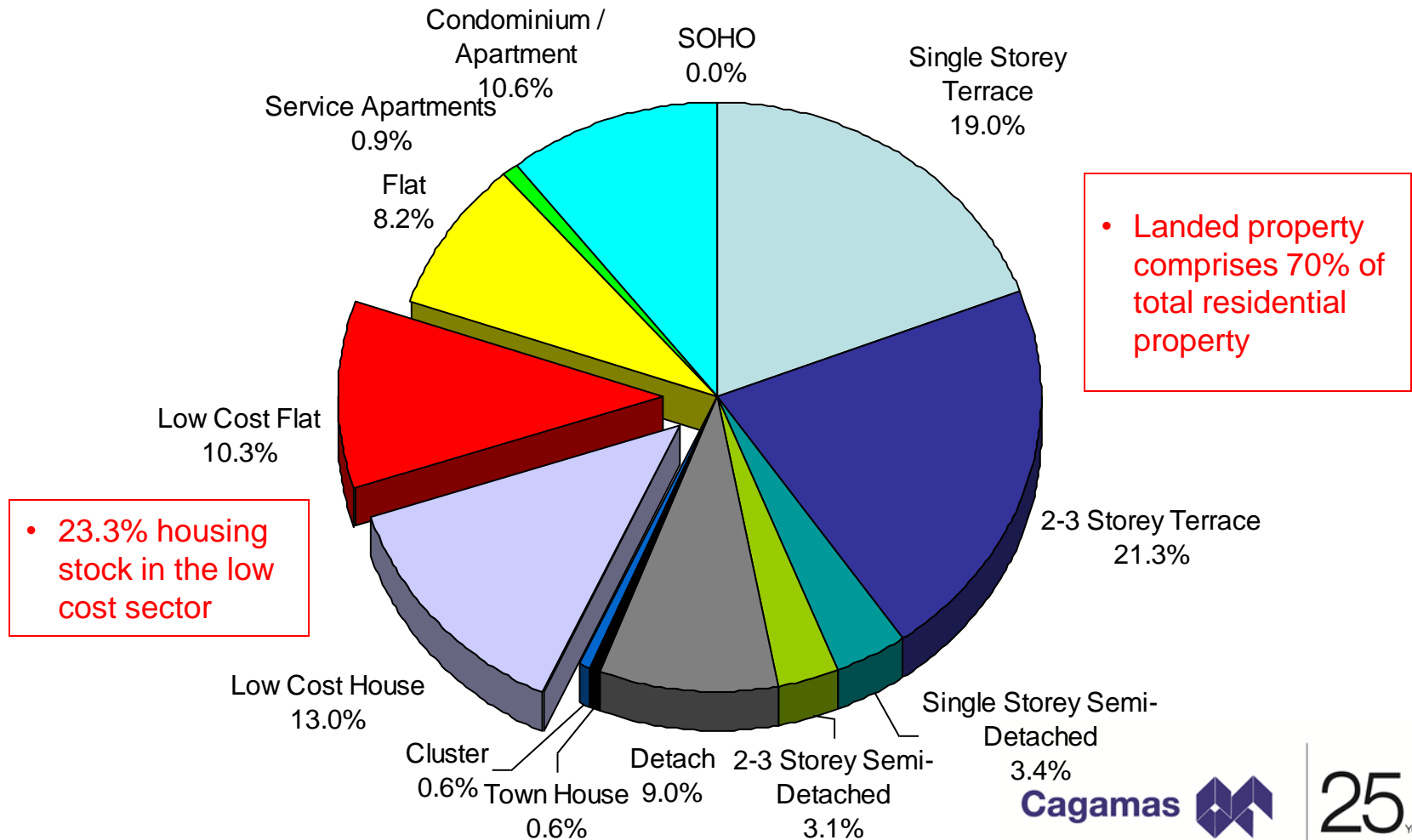
	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
GDP (RM billion) :	358.2	377.6	399.4	426.5	449.3	475.5	506.3	530.2	521.1	558.4	588.3
% of GDP :	6.2%	5.6%	5.8%	6.9%	6.3%	6.2%	7.2%	7.8%	8.0%	9.1%	11.7%

*Source: Valuation and Property Services Department, Ministry of Finance (www.jp-ph.gov.my)



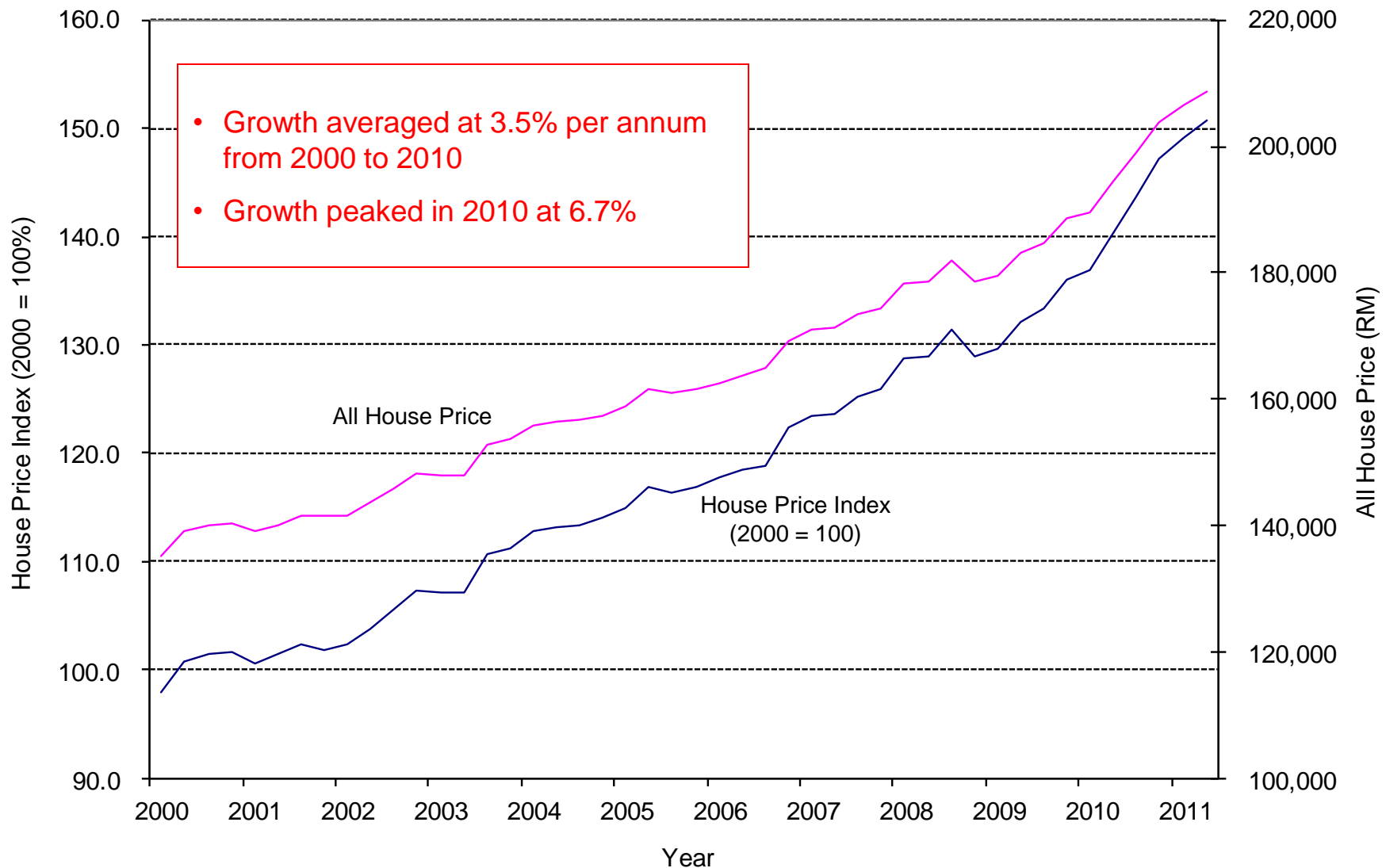
Predominantly comprises landed property

Chart: Type of Residential Property Stock as at 2011





House prices experienced steady growth over the last decade





- Malaysian Housing Market
- Malaysian Primary Mortgage Market
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Primary Mortgage Market

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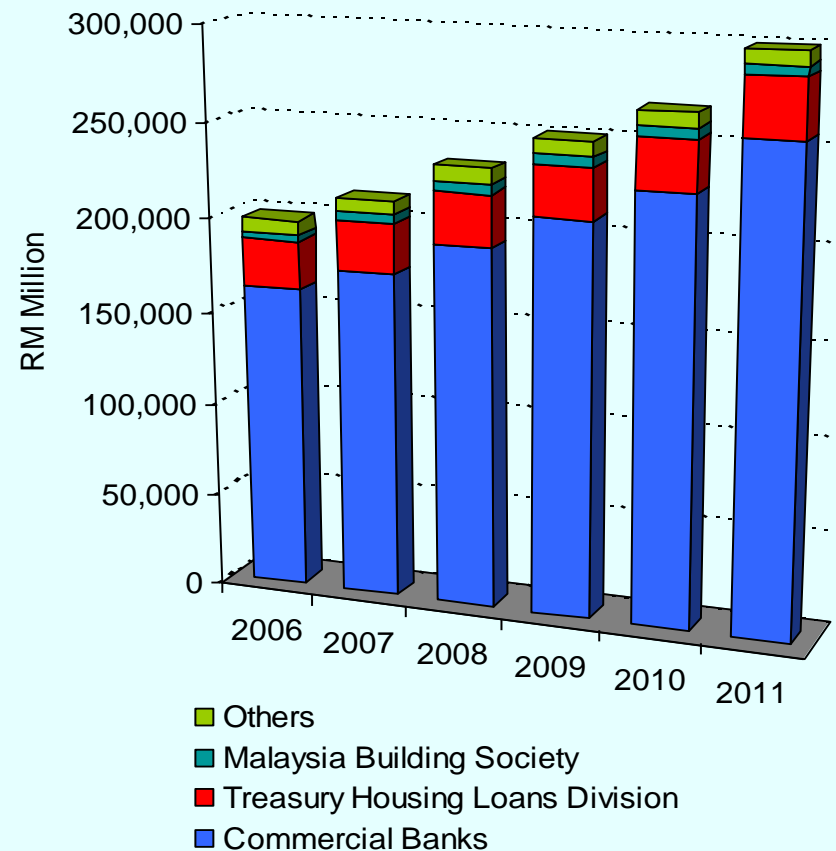
Mortgage Originators

Private Sector

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

Public Sector

- Housing Loan Division, Treasury Malaysia



Over 85% of total mortgage financing is funded by Commercial Banks

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

Cagamas

25
Years of
Housing the Nation

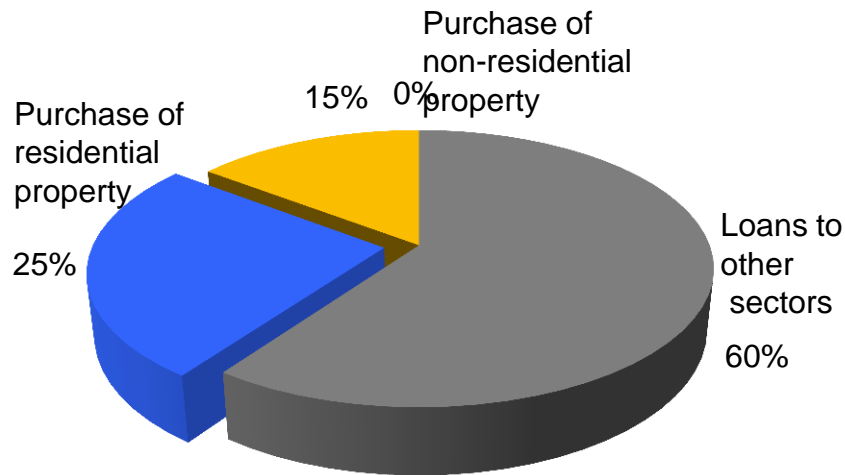


Primary Mortgage Market

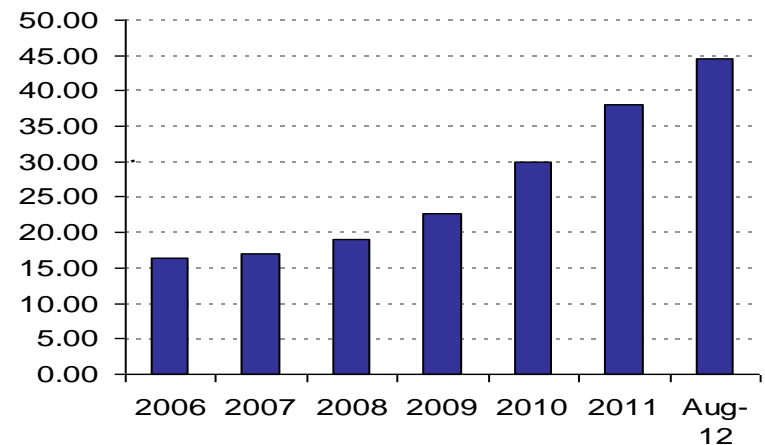
Commercial bank – primary source of mortgage financing

- 27 Commercial banks and 16 Islamic Banks
- Residential mortgage lending/financing amounts to RM292 billion – significant portion of total outstanding loans
- Strong growth in Islamic mortgage financing – almost doubled in 5 years

Outstanding Loans by Sector
as at Aug 2012



Outstanding Islamic Mortgage Financing
from 2006 to Aug 2012



Source: Monthly Statistical Bulletin, Bank Negara Malaysia



Primary Mortgage Market

Loan Characteristics

- Loan-to-value (LTV) of up to 95% - typically 90% for property and 5% for legal fees and mortgage reducing term assurance/ takaful (MRTA / MRTT)
- Tenure of up to 35 years
- Interest/ Profit Rate Structure
 - Conventional Loans – Typically floating rate (Base Lending Rate +/- spread)
 - Islamic Loans – Fixed rate and Float Rate
 - Teaser rate period of 3 - 5 years (lock-in period)
- Typical Debt Service Cover Ratio (DSCR)* of 3:1 to 1.5 : 1
- Loan structures
 - Fully amortising loan
 - Redrawable loans
 - Savings linked loans

**DSCR defined as the amount of cash flow available to meet annual interest and principal payments on debt*



Primary Mortgage Market

Priority Lending Guidelines

- Commercial banks are required to channel a percentage* of their total financing towards the priority sector – including low cost housing – as determined by Bank Negara Malaysia (BNM)
- Bank Negara Malaysia imposes a ceiling on interest rate on loans granted by commercial banks and finance companies for houses priced at RM100,000 and below
- Ceiling Interest rate :
 - Maximum lending margin of 1.75 percentage points above the declared base lending rate for commercial banking institutions.
 - Maximum profit rate of 9% for Islamic banking institutions

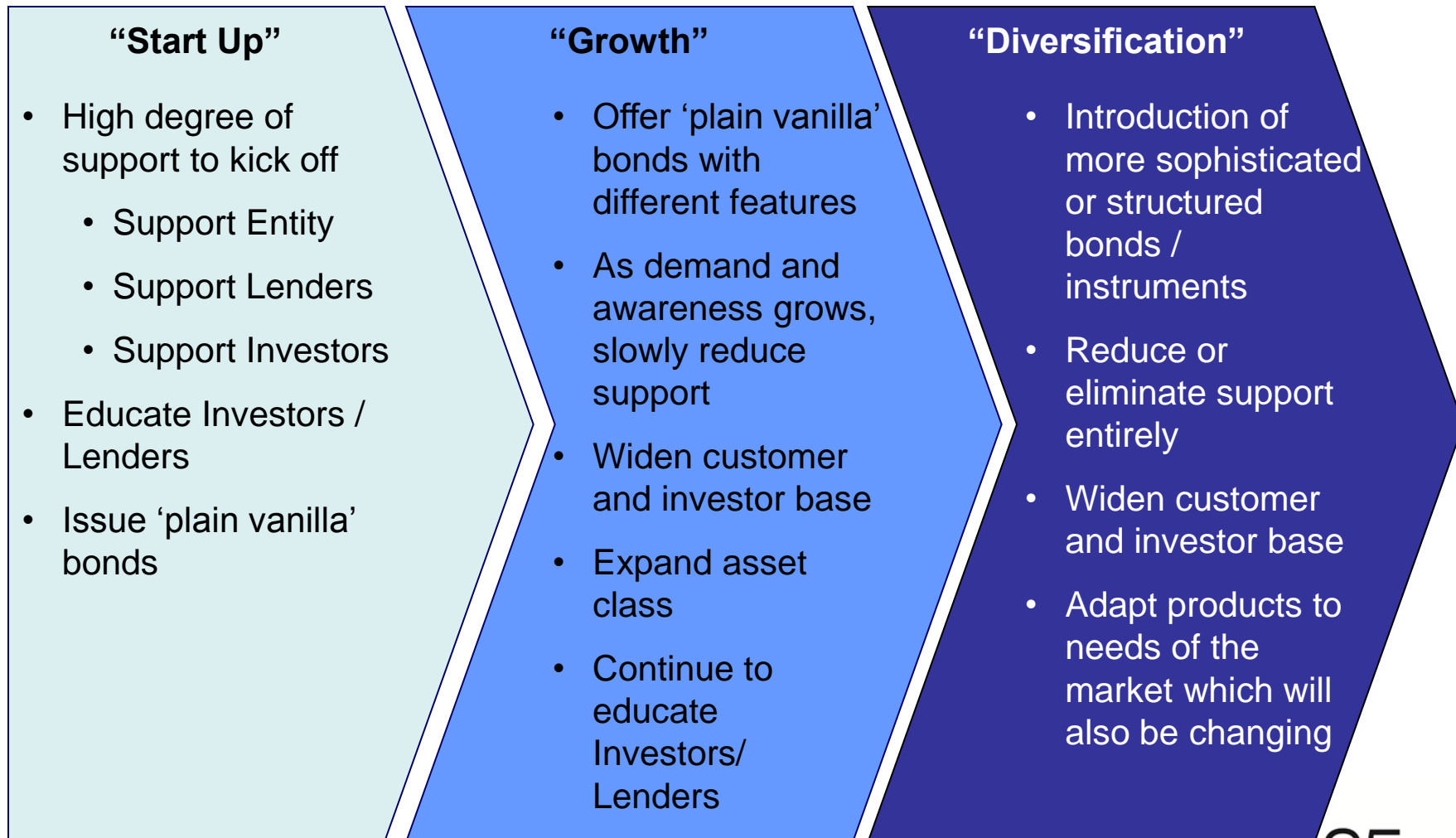
* Percentage is determined by BNM on a bank to bank basis



- Malaysian Housing Market
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The move to a Secondary Market – Phase Approach





Establishment of Cagamas Berhad

- Creation of a secondary mortgage market as a result of a liquidity crunch in the 80s and public policy objective of a “homeownership democracy”
- Spearhead the development of Private Debt Securities (PDS) market.
- The market situation in the mid 80’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

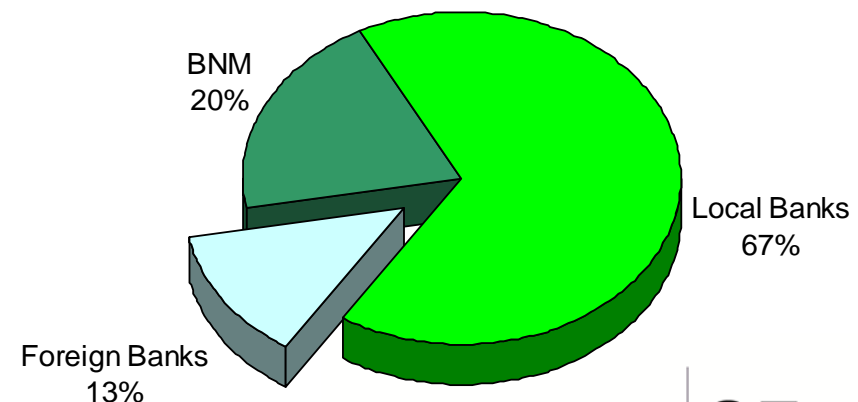
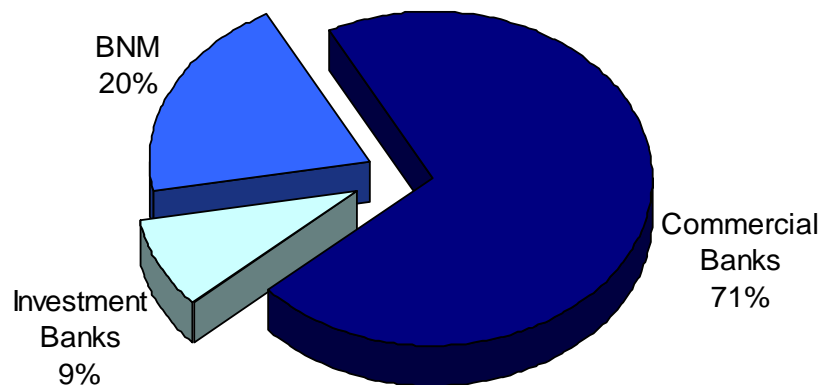


Cagamas – A quick snapshot

- Top 5 shareholders of Cagamas are:-

Shareholders	No. of Shares	%
Bank Negara Malaysia	30,000,000	20.0
CIMB Bank Berhad	24,684,000	16.5
Maybank Group	21,279,000	14.2
RHB Bank Group	12,932,400	8.6
AmBank Group	12,066,000	8.0

- Shareholder demographics:-





Facts & Figures

Key Financials as at 31 December 2011

- Profit before tax : RM304 million
- Asset size : RM22.7 billion
- Shareholder's funds : RM2.1 billion
- Return on Risk Weighted Assets (RORWA) : 2.59%
- Return on Equity (ROE) : 10.78%
- Risk Weighted Capital Ratio (RWCR) : 25.1%

Bond Issuance as at 30 September 2012

- Issued RM263.5 billion PDS (Sukuk: RM28.7 billion)
- Outstanding Unsecured Bonds of RM20.4 billion (Sukuk: RM10.9 billion)
- Outstanding Residential Mortgage Backed Securities (RMBS) of RM6.3 billion (Islamic RMBS: RM2.9 billion)
- 9% of Corporate Debt Securities Market (8% of Sukuk Market)
- 23% of outstanding AAA Corporate Debt Securities (17% of AAA Corporate Sukuk)

Asset Backed Securities (ABS) Issuance as at 30 September 2012

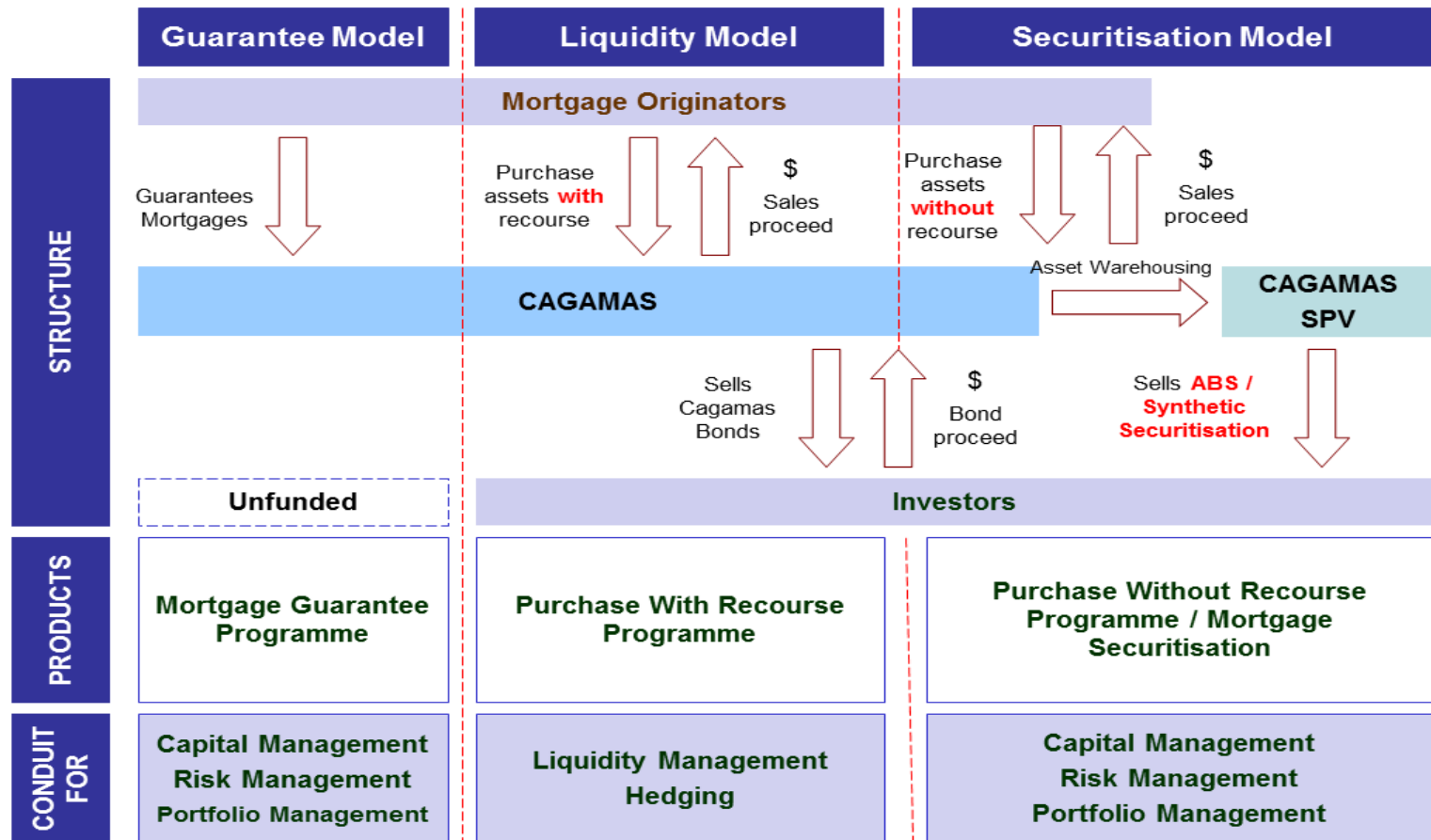
- RMBS Issued to date RM10.2 billion (Islamic RMBS issued RM4.2 billion)
- 46% of ABS (57.2% of Islamic ABS)
- 81.5% of outstanding AAA ABS (93.1% of AAA Islamic ABS)



The Malaysian Experience – Cagamas Berhad

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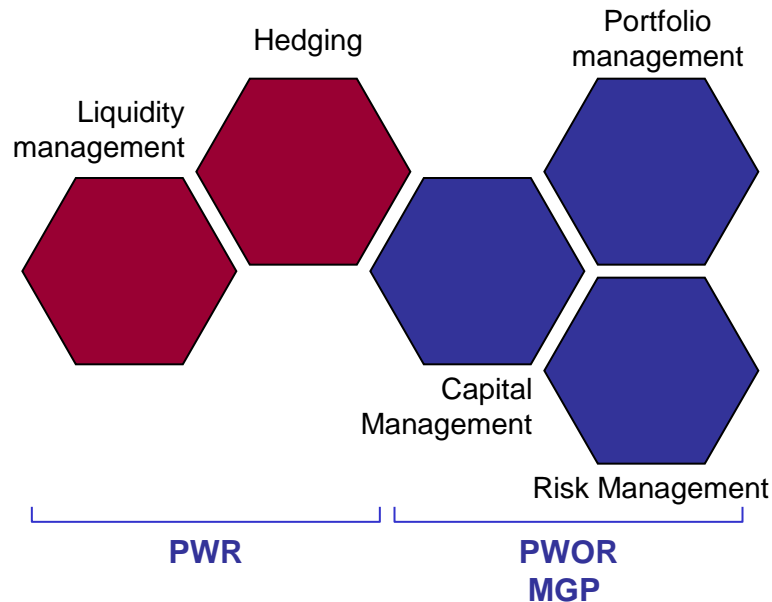
Cagamas Business Model





Cagamas Business Model (cont)

- Cagamas offers the following tools to the FIs:-



- 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)

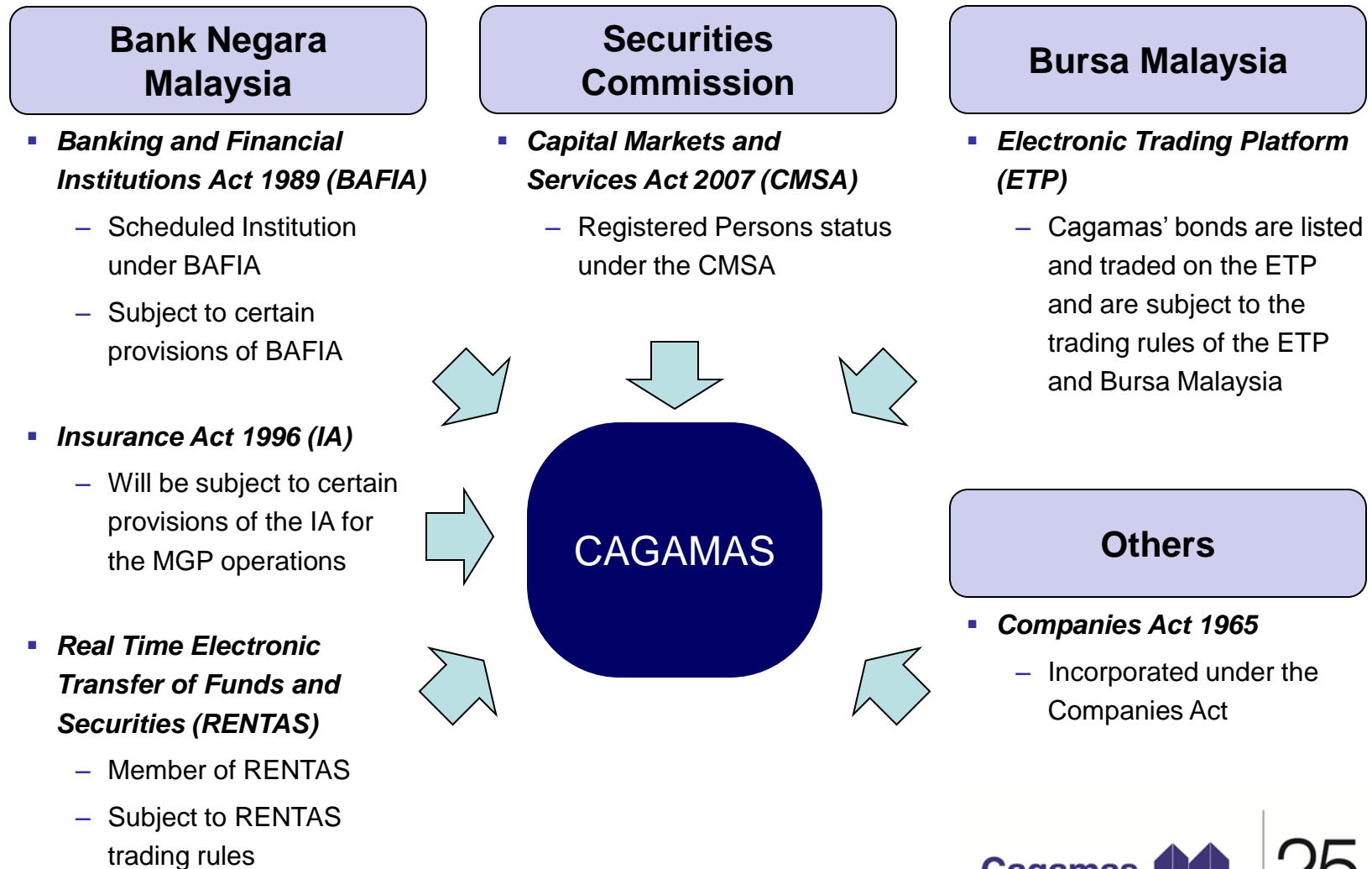
- Conventional Housing Loans
- Islamic House Financing
- Hire Purchase
- Islamic Hire Purchase

Mortgage Guarantee Programme (MGP)

- Conventional Housing Loans
- Islamic House Financing

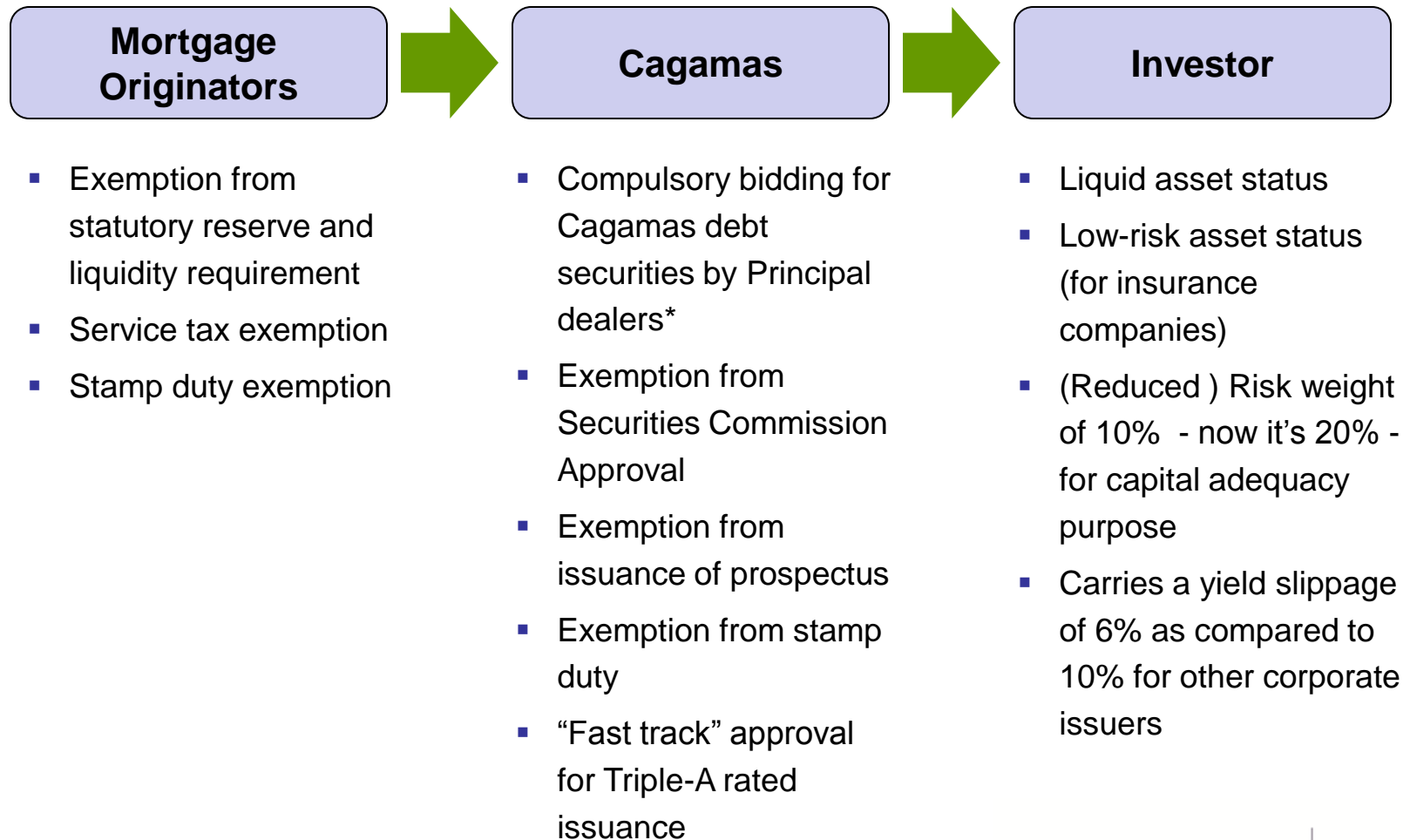


Cagamas - Regulatory Environment





Cagamas - Supporting Measures





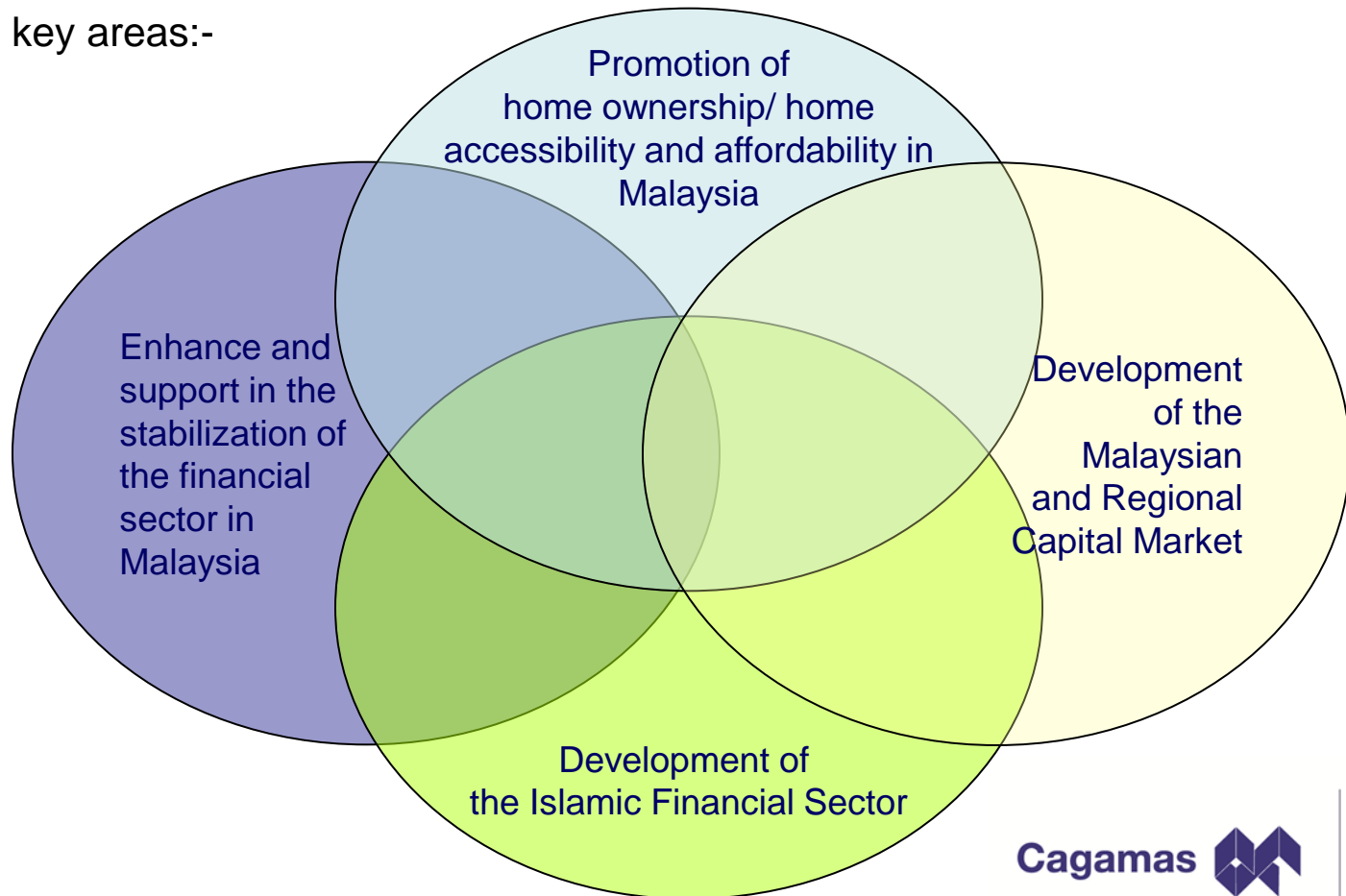
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Role & Impact of Cagamas

Role of Cagamas within the Financial / Mortgage Sector

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





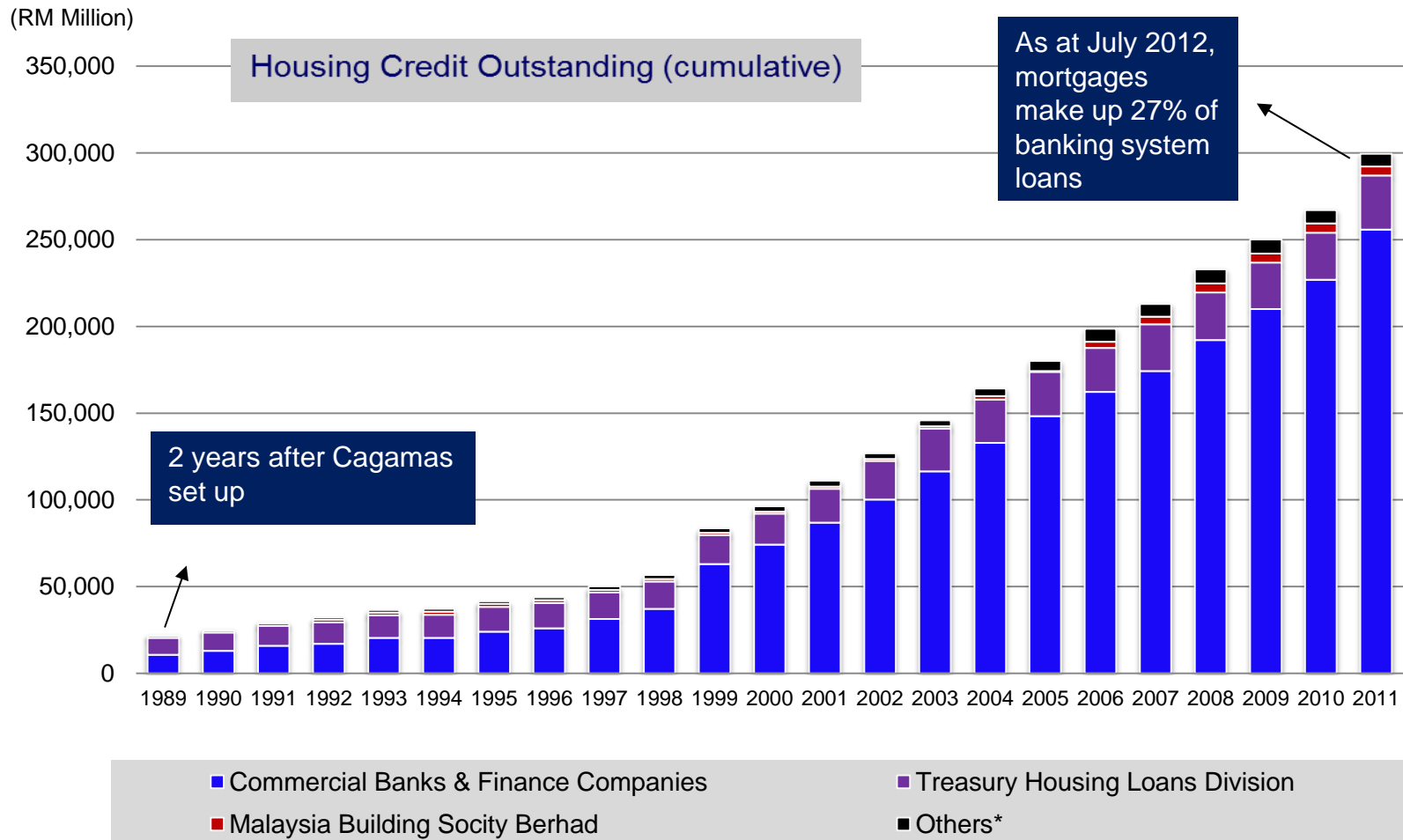
Role & Impact of Cagamas

Role of Cagamas within the Financial / Mortgage Sector :-

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



Promotion of home ownership/home accessibility and affordability in Malaysia



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



Role & Impact of Cagamas

Role of Cagamas within the Financial / Mortgage Sector :-

- 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 loan standards
- } PWOR programme and MGP



Role & Impact of Cagamas

Role of Cagamas within the Financial / Mortgage Sector :-

- Development of the Malaysian and Regional Capital Market
 - Significant player in the debt securities market
 - 2nd largest issuer of bonds after the Government of Malaysia
 - Develop the quality of capital market – structuring of high investment grade instruments
 - Approx. 23% of AAA market
 - Approx. 82% of AAA ABS market
 - Contribute to the depth and breadth of capital market – structuring of sophisticated instruments

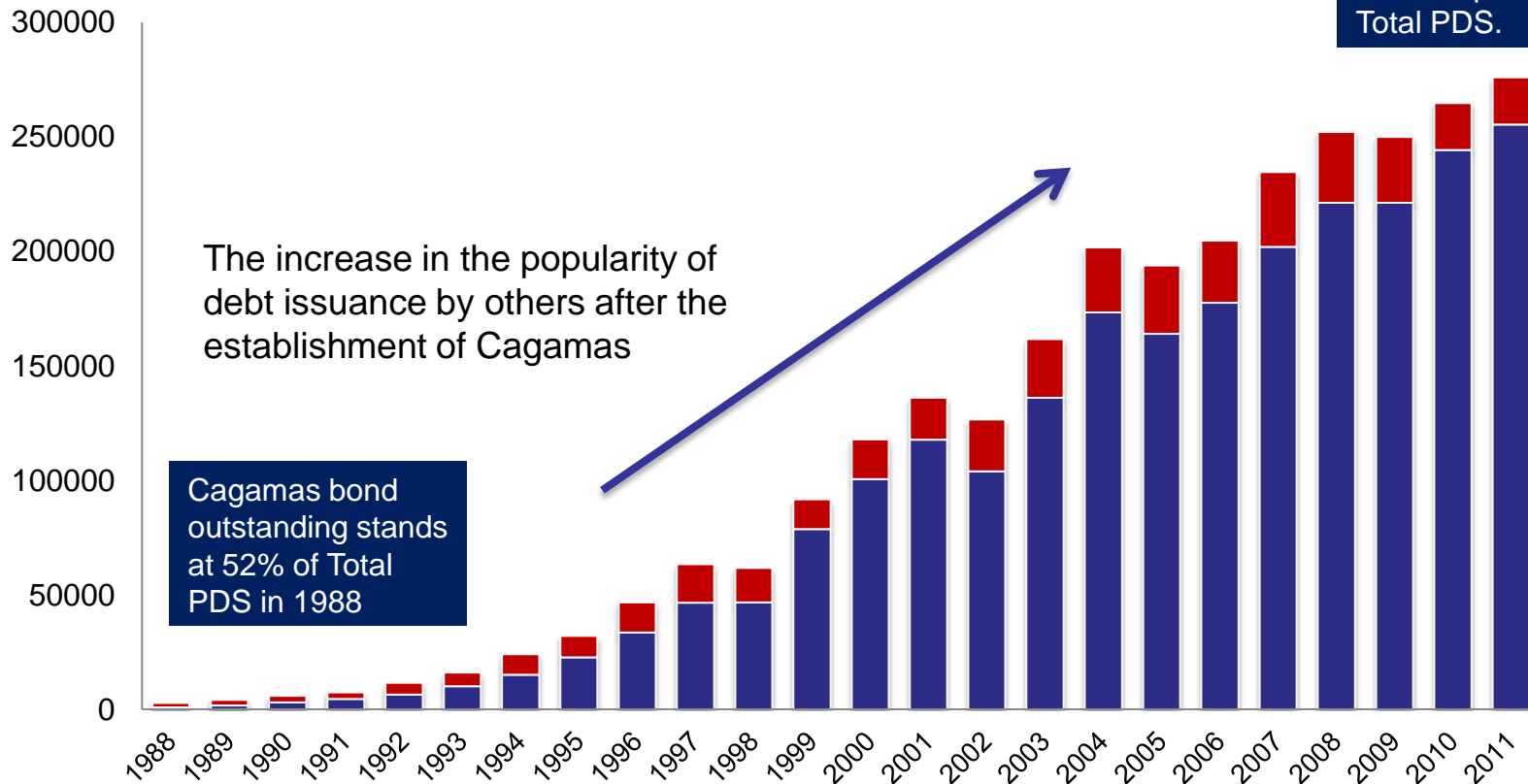


Cagamas Share in Total PDS market

(RM Million)

■ PDS Outstanding ■ Cagamas Bond Outstanding

As at Sept 2012, Cagamas bond outstanding makes up 23% of Total PDS.

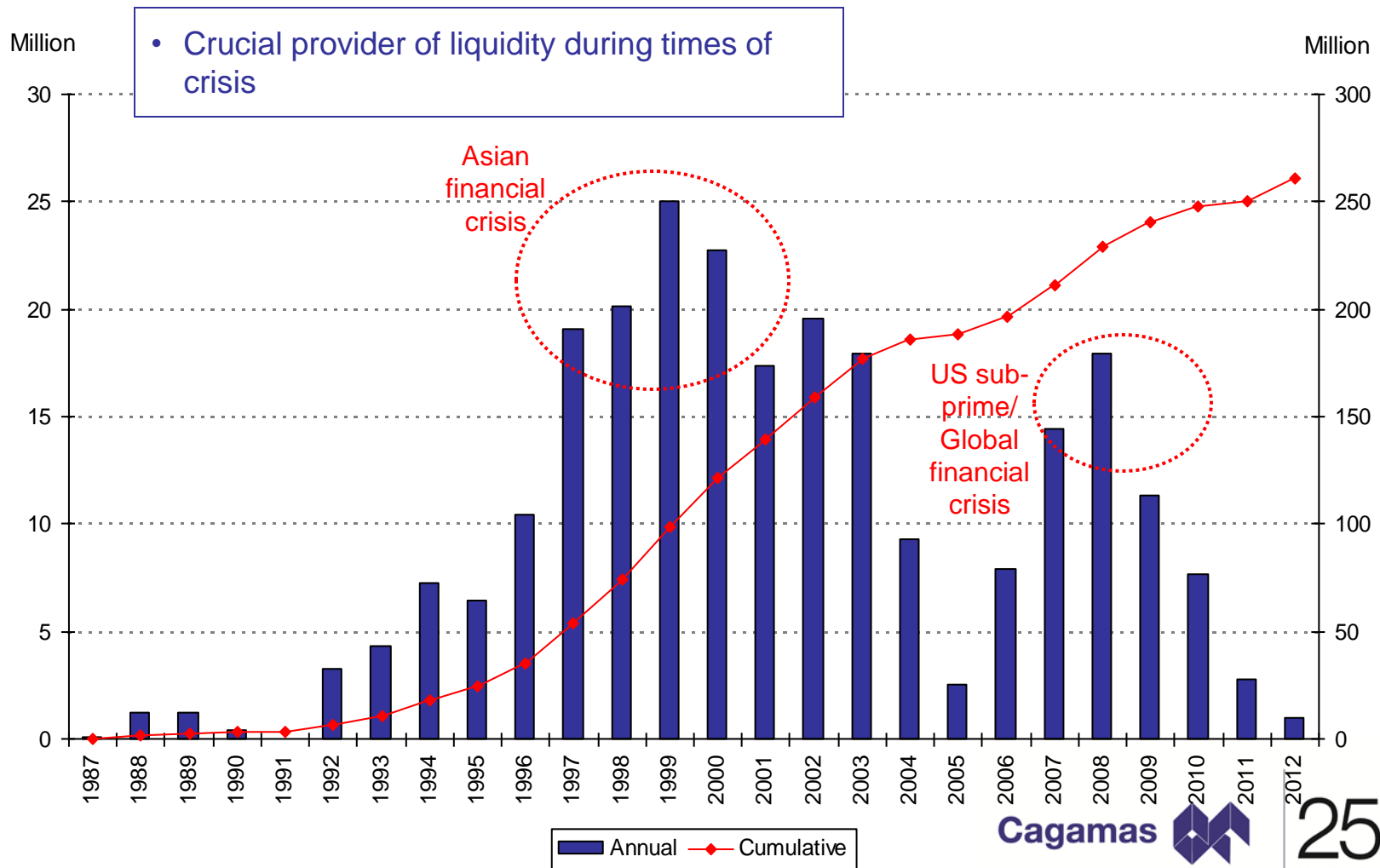


Source: BNM Annual Report, various years



Role & Impact of Cagamas

Provided liquidity of almost RM264 billion to the financial sector



Cagamas



25
Years of
Housing the Nation



Role & Impact of Cagamas

Role of Cagamas within the Financial / Mortgage Sector :-

- Development of the Islamic financial sector
 - Significant player in the Islamic debt securities market
 - Approx. 17% of AAA Sukuk market
 - Approx. 93% of Islamic AAA ABS market
 - Develop 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



Other Key Impacts:-

- Promoting longer tenure of housing loans granted
 - Longer tenure loans of up to 25 or even 30 years
 - Demand for houses has strengthened and loans are more affordable
- Generating strong competition among financial institutions to grant housing loans
 - Provide access to competitively priced funds, resulting in easy access to affordable housing loans (particularly the low cost sector)
 - instrumental in encouraging financial institutions to provide fixed rate mortgages
- 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
 - Largest issuer of private debt securities in the country



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



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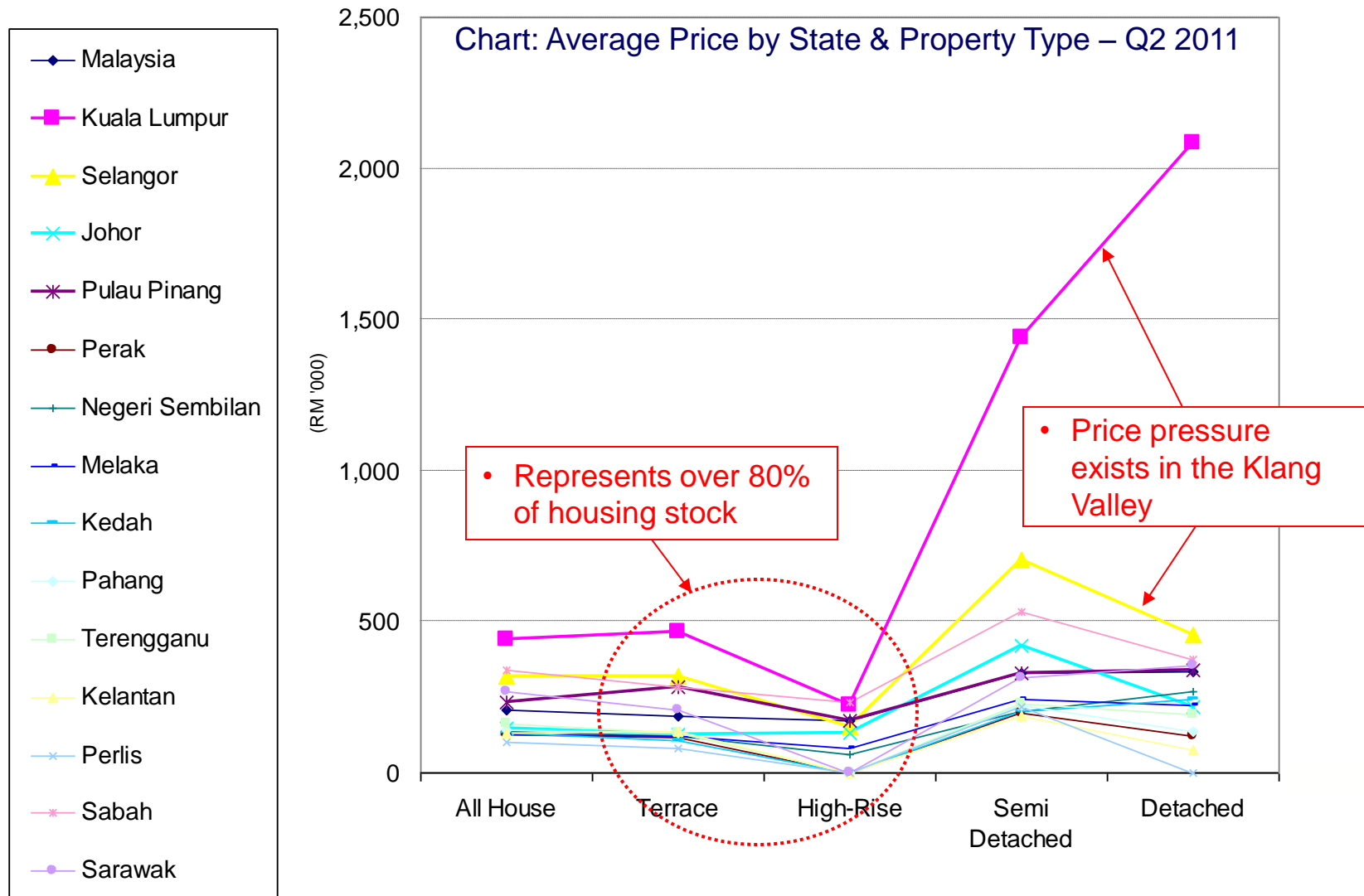
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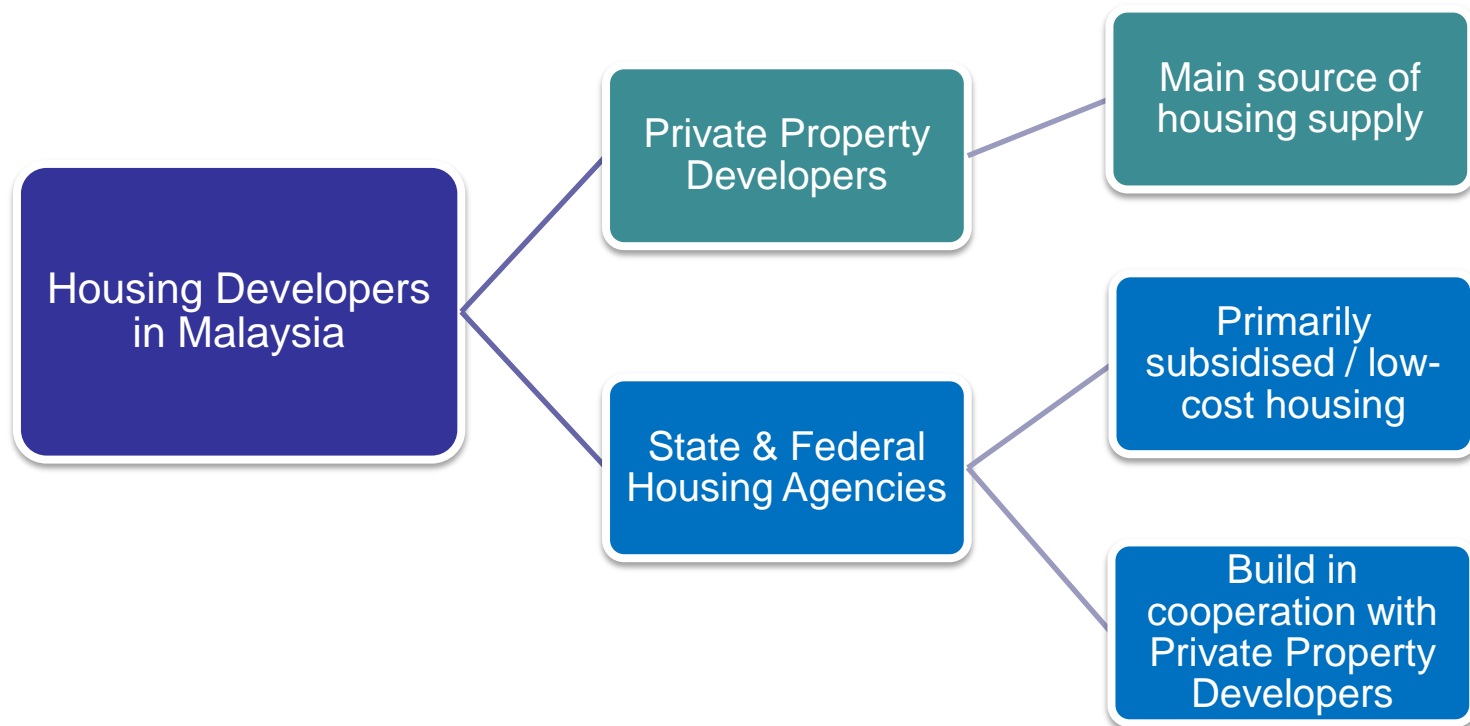
Malaysian Housing Market

Appendix

Generally, house prices average within the RM100k to RM300k range



Source: Valuation and Property Services Department, Ministry of Finance (www.jp-ph.gov.my)

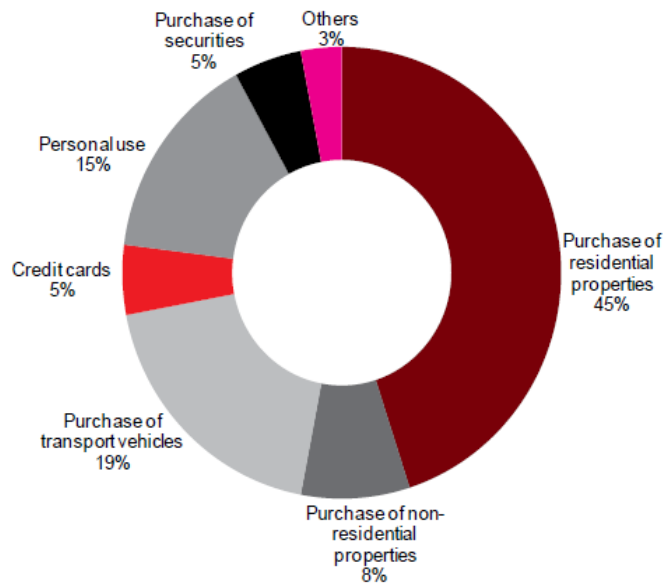




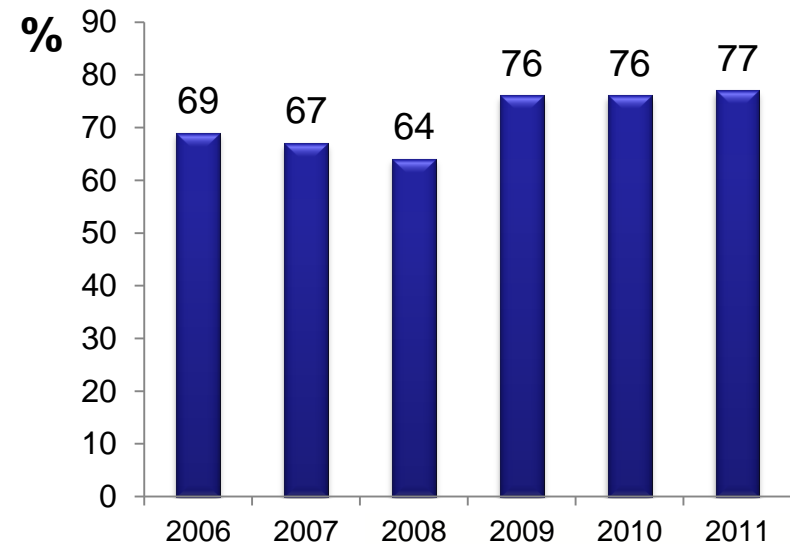
Mortgage Financing in Household Debt

- Mortgage financing is a significant component of household debt (45% @ 2011)
- Household debt as a proportion of GDP = 77% @ 2011

- **Household Debt by Composition**



Household Debt to GDP Ratio





Loan Characteristics

- Loan-to-value (LTV) of up to 95% - typically 90% for property and 5% for legal fees and mortgage reducing term assurance/ takaful (MRTA / MRTT)
- Tenure of up to 35 years
- Interest/ Profit Rate Structure
 - Conventional Loans – Typically floating rate (Base Lending Rate +/- spread)
 - Islamic Loans – Fixed rate and Float Rate
 - Teaser rate period of 3 - 5 years (lock-in period)
- Typical Debt Service Cover Ratio (DSCR)* of 3:1 to 1.5 : 1
- Loan structures
 - Fully amortising loan
 - Redrawable loans
 - Savings linked loans

**DSCR defined as the amount of cash flow available to meet annual interest and principal payments on debt*



Risk of Property Bubble

- Highly unlikely given the current status of the housing market
 - Steady growth rather than volatile movements in price over the last 10 years
 - Real demand for owner-occupied units still exist – less likely to cause bubble compared to property for investment
 - High house prices only in selected locations, primarily within the Klang Valley, Penang and Johor
- Government measure to avoid property bubble/ speculation
 - A maximum loan-to-value ratio (LTV) of 70% for the purchase of a third residential property
 - A higher capital charge of 100% (previously 75%) during the computation of risk-weighted assets for mortgages where the LTV is 90% or higher
 - RPGT increase for properties sold within the first 2 years from 5% to 10% in Budget 2012. RPGT for year 3 - 5 remains at 5%
 - Introduction of more stringent credit assessment standards for consumer credit from the third quarter of 2011. This would include an affordability test, where the repayment ability of the borrower would be stressed for progressive increases in cost of borrowing.
- Above measure may have already taken effect
 - Drop in average high rise unit and detached house price in Klang Valley in Q2 2011



Primary Mortgage Market

Regulatory Environment

- Bank Negara Malaysia is the **main regulator** for house finance
- Areas of regulation includes:-
 - Margin of finance
 - Interest rate
 - Capital charge on mortgage financing
 - Priority sector lending guidelines
- Vested with comprehensive legal powers under legislation to regulate and supervise the house finance, including:

- Banking and Financial Institutions Act 1989 (BAFIA)
- Islamic Banking Act 1983
- Central Bank of Malaysia Act 2009



Primary Mortgage Market

Government Policy: Promote 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
- Mandated lending for housing was introduced in 1976
 - to increase the access of credit to the housing sector
 - to provide the borrowers, particularly purchasers of low and medium cost houses with subsidised credit facilities
- Various initiatives undertaken to enable targeted groups access to affordable home financing
 - Priority Lending Guidelines
 - Utilising the Employee Provident Funds
 - Home financing schemes



Role of the Employees Provident Fund in promoting home ownership

- An employee is required to contribute 11% of his monthly earnings to the Employees Provident Fund (EPF), while his employer a minimum of 12%
- Contribution is placed in 2 accounts:-
 - Account I – 70%
 - Account II – 30%
- Employees are allowed to utilized funds in Account II for the purpose of:-
 - Buying a house
 - Building a house
 - Monthly withdrawal for the purpose of mortgage financing repayment

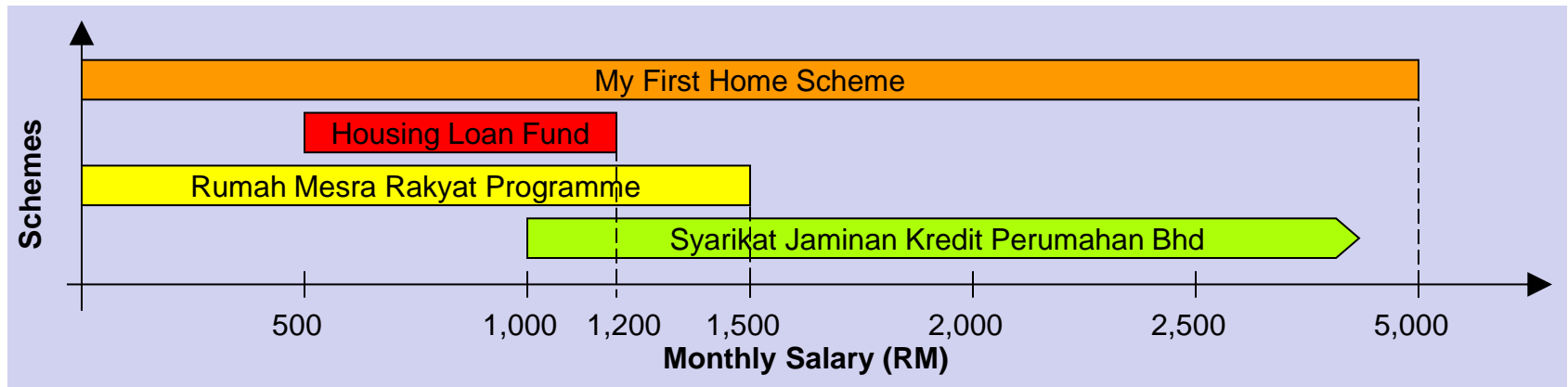


Primary Mortgage Market

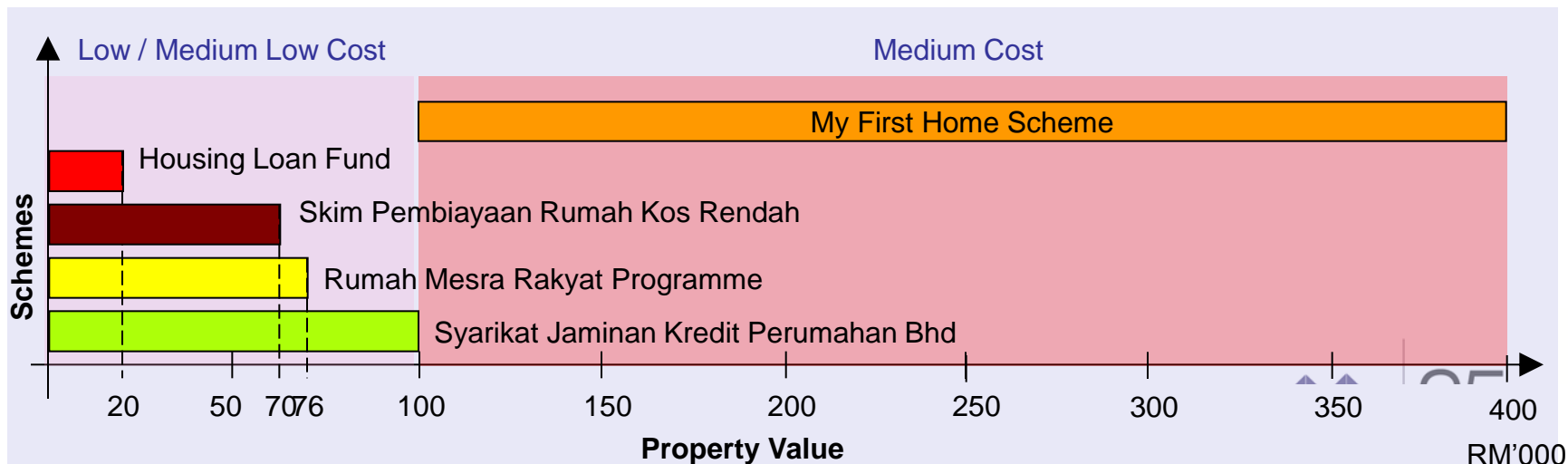
Appendix

Home Financing Schemes

- Targeted at the lower income groups



- Targeted at low, medium-low and medium cost housing





Primary Mortgage Market

Appendix

Home Financing Schemes - Details

Schemes	My First Home Scheme	Syarikat Jaminan Kredit Perumahan Bhd	Rumah Mesra Rakyat Programme	Housing Loan Fund for Lower Income Group	Skim Pembiayaan Perumahan Kos Rendah
Target segment	Young adults entering the workforce with fixed income	Borrowers without fixed income, such as farmers and small traders	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
Salary Range	Max RM5,000 per month (RM10,000 for joint applicants)	Min RM1,000 per month	Household gross income does not exceed RM1,500	Household gross income between RM500 and RM1,200	n/a
Service/Product Offering	Guarantees 10% on a "first loss" on mortgage loans given by banks	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
Eligible Property	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
Max Loan Amount	100%	100% or RM100,000	RM76,000	RM20,000	RM60,000
Lending Rate	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%



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

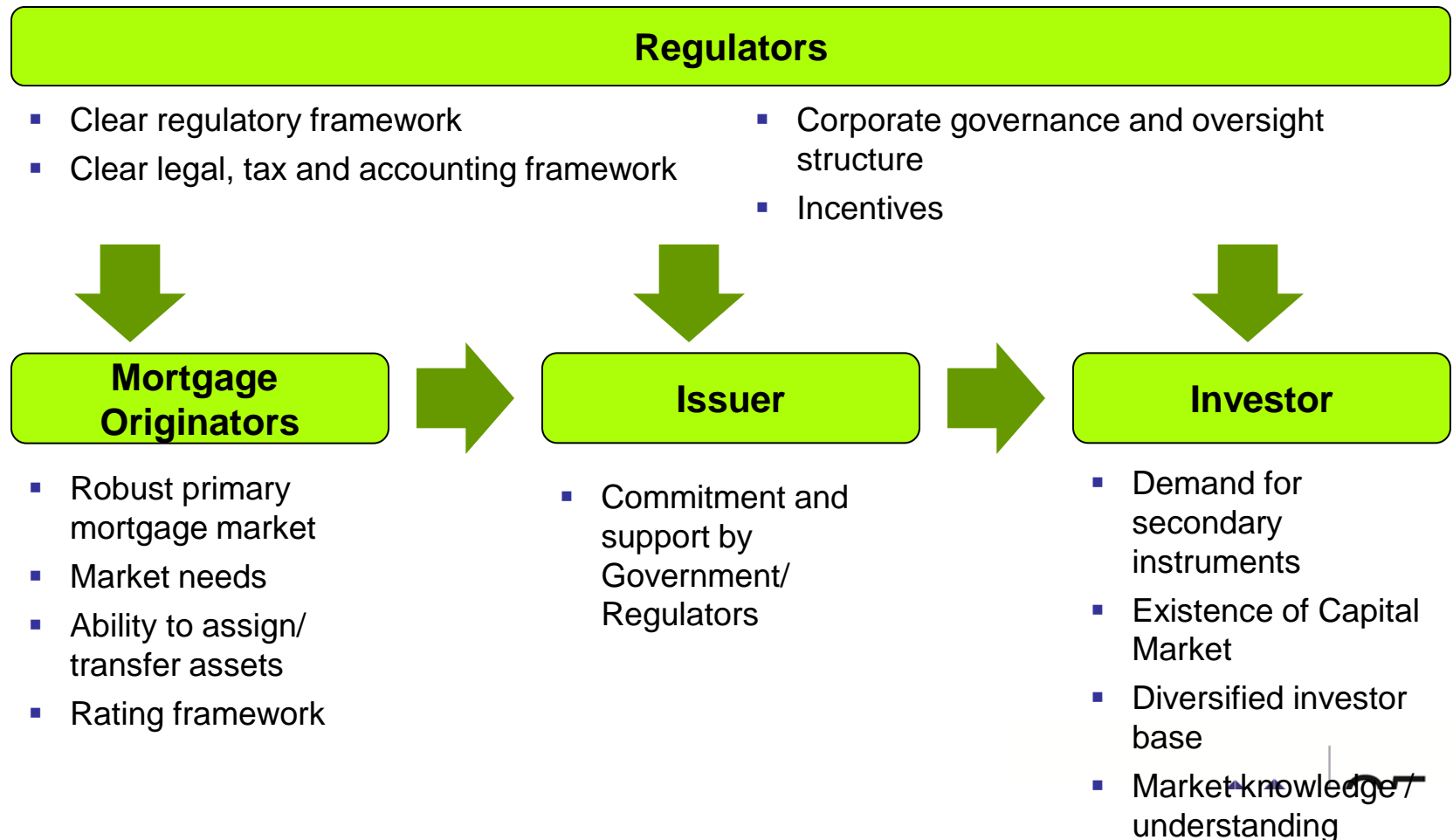


Secondary Mortgage Market

Appendix

The move to a Secondary Market – What is Required?

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





The Malaysian Experience – Cagamas Berhad

Establishment of Cagamas Berhad (cont'd)

- As a direct result of the needs of the market, Cagamas Berhad was incorporated in December 1986 as the National Mortgage Corporation with the following objectives:-

- 1 Alleviate the liquidity problem and reduce funding mismatch within the banking sector
- 2 Promote home ownership
- 3 Spearhead development of the private debt securities market

- Our vision statement:-

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



The Malaysian Experience – Cagamas Berhad

Cagamas - What we issue

RM60 billion (40 year) CP / MTN Programme

- Short-term Discount Notes/ Commercial Papers (CPs) (Conventional and Islamic)
- Fixed Rate Bonds/ Medium Term Notes (MTNs) (Conventional and Islamic)

RM5 billion (30 year) Sukuk al-Amanah Li al-istithmar Programme

- Sukuk al-Amanah Li al-Istithmar (ALIm)

Asset Backed Securities Programme

- Residential Mortgage-Backed Securities
- Islamic Residential Mortgage-Backed Securities



The Malaysian Experience – Cagamas Berhad

Cagamas - A phase approach in developing the market

	Structure	Asset	Bond
1987 - 1991	<ul style="list-style-type: none"> PWR (1987) 	<ul style="list-style-type: none"> Housing loans on fixed rate basis (1987) Housing loans on floating rate basis (1992) Staff housing loans from selected corporation (1994) Industrial property loans (1996) 	<ul style="list-style-type: none"> 5 year fixed rate bonds (1987) 3-year fixed rate bonds (1989) 7-year fixed rate bonds (1990) Floating rate bonds (1992)
1992 - 2005	<ul style="list-style-type: none"> Residential Mortgage-Backed Securities (RMBS) (2004) 	<ul style="list-style-type: none"> Hire purchase and leasing debts (1998) Islamic Hire Purchase debts (2002) Credit card receivables (2003) 	<ul style="list-style-type: none"> Sukuk Mudharabah (1994) RMBS(2004) Sukuk Musyarakah RMBS (2005)
2006 onwards	<ul style="list-style-type: none"> Purchases Without Recourse (2007) Synthetic Securitisation (2007) Mortgage Guarantee (2008) 	<ul style="list-style-type: none"> Small Medium Enterprise Loans (2007) Islamic personal financing (2008) Rahn financing (2008) 	<ul style="list-style-type: none"> CP MTN program (2007) Sukuk Commodity Murabahah (2009) Covered bonds (2010)



The Malaysian Experience – Cagamas Berhad

Cagamas - Supporting Measures

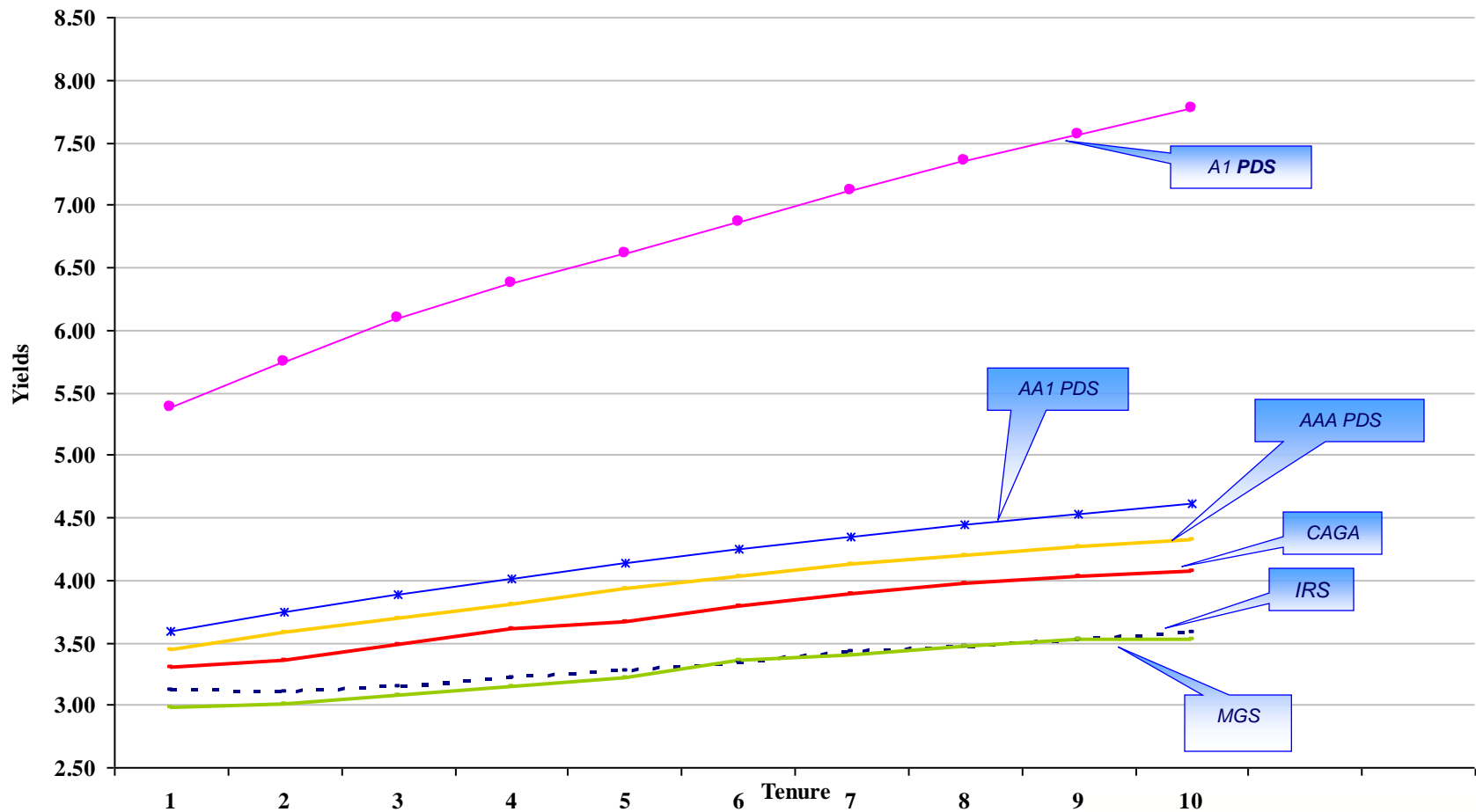
- Support from the following government and regulatory authorities enabled Cagamas to play its role successfully as a secondary market institution and to contribute to the development of the debt securities market:
 - Bank Negara Malaysia
 - The Ministry of Finance
 - The Securities Commission
 - Companies Commission of Malaysia



Role & Impact of Cagamas

Appendix

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





Role & Impact of Cagamas

Appendix

- Cagamas is perhaps the **only secondary mortgage institution** in the world with a **proven** and **award winning Islamic capabilities**. Our experience includes:-

Innovative & Award Winning Team	<ul style="list-style-type: none">• Developed many “first” Islamic structures of its kind utilising various Islamic concepts and principles• Islamic structures have won numerous local, regional and international awards
Quality Sukuk Issuer	<ul style="list-style-type: none">• AAA-rated by both local rating agencies, RAM Ratings (RAM) and Malaysian Rating Corporation (MARC)• No default experience in our 25 years of operations
Shariah Compliant Structures	<ul style="list-style-type: none">• Globally Shariah compliant structures• Legal documents in accordance to Shariah principles and best practices• Approved by the relevant Shariah Advisory Council at BNM and/or the Securities Commission
Islamic Compliant Operations & Infrastructure	<ul style="list-style-type: none">• Distinct from conventional operations• Separation of funds, activities, and accounting books & records to prevent co-mingling of funds.• Islamic investments are limited to highly rated Islamic investments, primarily Government, or Government guaranteed papers• Systems & Infrastructure designed to cater for Islamic products