

Sharia Residential Mortgage Backed Securitisation



Cagamas Berhad



Cagamas Berhad

Established in 1986 as the National Mortgage Corporation of Malaysia to promote home ownership and growth of the secondary mortgage market in Malaysia. Cagamas issues competitively-priced debt securities to finance the purchase of housing loans/financings from primary lenders

Prolific Issuer

- ✓ 2nd largest issuer of debt securities after the Government of Malaysia
- ✓ Largest issuer of AAA debt securities in the Malaysian market
- ✓ Cumulatively issued RM353 billion of debt securities since inception with no default experience
- ✓ Regarded by World Bank as most successful secondary mortgage liquidity facility model

Outstanding Credit Standing

- ✓ Cagamas debt securities continue to be assigned credit ratings of AAA by RAM Rating Services Berhad (RAM) and Malaysian Rating Corporation Berhad (MARC)
- ✓ No rating downgrade even during the Asian financial crisis
- ✓ Tenure extend up to 20 years and serves as benchmark for other Private Debt Securities (PDS)

Multi-Currency Funding Platform

- ✓ Assigned local and foreign currency long-term issuer ratings of A3 by Moody's Investors Service which are on par with Malaysia's sovereign ratings
- ✓ An alternative funding source and allows for widening of investor base to include foreign investors

Innovative and Award Winning Transactions

- 2020 : GIFA Excellence Awards (Islamic Securitisation)
- 2016 : Sukuk Summit - Outstanding Contribution for the Development of Shariah-Compliant Mortgage Securitisation
- 2010: RM1 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm) being the 1st transaction of its kind in the world
- 2007: RM600 million Synthetic Securitisation of SME Loans being the 1st transaction in the ASEAN region
- 2005: RM2.05 billion Sukuk Musyarakah Residential Mortgage-Backed Securities (RMBS) being the 1st rated transaction in the world



About Securitisation



Securitisation: Recap

Definition:

- Cost-efficient and flexible structured finance technique of liquidity transformation and risk transfer, which converts present or future asset claims of varying maturity and quality into tradable debt securities.
 - ✓ An arrangement which involves the **transfer of assets or risks to a third party** where such transfer is funded by the issuance of debt securities (conventional or Islamic securities) to investors.
 - ✓ Payments to investors in respect of such debt securities or Islamic securities are **principally derived, directly or indirectly**, from the cash flows of the assets.
 - ✓ THEREFORE, securitisation of assets need not be funded only by asset-backed securities as long as a transfer of assets is achieved.

* **Guidelines of the Offering of Asset-Backed Securities** issued by the Securities Commission of Malaysia (July 2004)



Islamic Finance & Securitisation



Securitisation In Islamic Finance





Basic Concept

- Islamic securitisation transforms bilateral risk sharing between customers and financiers into the market-based refinancing of one or more underlying Islamic finance transactions.
- Originators would sell revenues (existing/future) from a portfolio of Shariah-compliant assets to an Issuer who issues unsecured securities (e.g. Sukuk) to market investors (Sukukholders).
- The Sukuk holders assume the role of a collective financier whose investment does not involve guaranteed, interest-based earnings.
- Islamic securitisation would need to involve the conversion of uncertain, business related proceeds of direct investment in Shariah-recognised real economic activity.



Securitisation In Islamic Finance

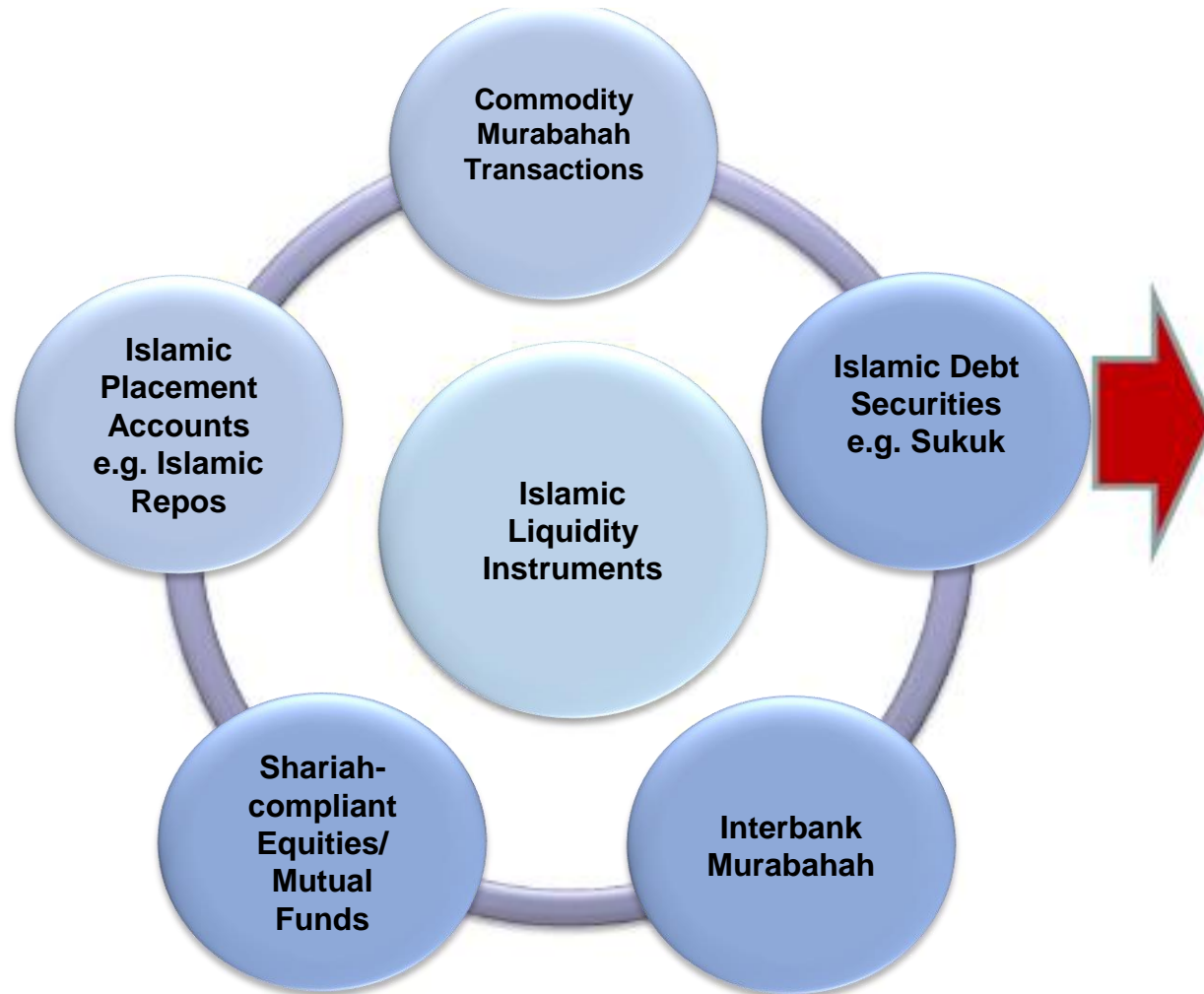
General Guiding Principles

	<ul style="list-style-type: none">➤ Riba (usury)➤ Gharar (uncertainty)➤ Maysir (gambling)
	<p>Utilisation of issuance proceeds must be channeled to Shariah compliant purposes or assets</p>
	<p>Same as conventional securitisation's risk-return profile</p>
	<p>Need to ascertain</p> <ol style="list-style-type: none">i. the type of assets in the underlying portfolio;ii. the generation of investment returns, andiii. the transaction structure (including credit enhancement as well as credit and liquidity support)



Islamic Liquidity Instruments

Common sources of liquidity for Islamic Financial Institutions...



Cagamas, being the largest issuer of corporate Sukuk in Malaysia, will continue to play an active role in advancing the presence and the diversity of Islamic finance by introducing new and innovative Islamic products in the financial market



Islamic Securitisation in Malaysia



Rules and Regulations



Rules and Regulations for Securitisation in Malaysia



1. Prudential Standards On Securitisation Transactions

- ✓ outlined the role and responsibilities of the board of directors and the senior management of banking institutions involved in securitisation activities
- ✓ specify best practices with respect to the general risk management framework in relation to securitisation activities



1. Guidelines on the Offering of Asset-Backed Securities (2004)

- ✓ for the issuance of ABS, the Issuer must seek the approval of the SC by complying with the ABS Guidelines as well as the Guidelines on Private Debt Securities (PDS Guidelines) or the Guidelines on Sukuk (Sukuk Guidelines), where applicable

2. Guideline on Trust Deeds (2011)

- ✓ all issuances will require the Issuer to execute a trust deed unless the issuances are exempted under Schedule 8 of the Capital Markets and Services Act 2007

3. Guidelines on Sukuk issued by SC (Sukuk Guidelines)

- ✓ sets out the requirements which the Issuer must comply:
 - the requirement for the appointment of Shariah advisors
 - requirements for specific submission of documents and information to SC

Malaysia's Notable Islamic Securitisation Issuances



Background of Islamic Securitisation in Malaysia

1986

Securitisation as a financing technique first used in Malaysia

2001

SC introduced ABS Guidelines

2004

SC revised ABS Guidelines, included Islamic ABS

2005

Cagamas RMBS issued RM2.05 billion AAA Islamic ABS (Sukuk Musyarakah)

2007

Cagamas RMBS issued RM2.1 billion AAA Islamic ABS (Sukuk Musyarakah)

2008

1. Telekom Malaysia Berhad issued RM1 billion ABS Sukuk
2. Al- Aqar Capital Sdn Bhd RM300 million Sukuk Ijarah Programme

2013

Malaysia Building Society Berhad issuance of 1st Tranche of RM495 million AA1 Covered Sukuk.

SC approved
44 ABS
proposals (9
Islamic ABS)



Cagamas' Islamic Securitisation Experience



Cagamas' Islamic Securitisation Deals Highlights

	Deal Highlight
Issuer	Cagamas MBS Berhad <ul style="list-style-type: none">• wholly owned by Cagamas Holdings Berhad• Single purpose entity incorporated for the securitisation purposes• SPV with bankruptcy remote features• no petition clause for winding up by parties that CMBS contracted with
Issuance Amount	RM2.05 billion
Issuance Date	8 August 2005
Instrument	Sukuk Musyarakah RMBS
Rating	AAA (MARC & RAM)
Originator & Servicer	Housing Loans Division of Ministry of Finance Malaysia (BPP)
Administrator and Transaction Administrator	Cagamas Berhad
Securitised Asset	Government's staff Islamic house financings
Profit Distribution Frequency	Quarterly



Mandate from the Government

- In April 2004, the Government of Malaysia mandated Cagamas to undertake the securitisation of its staff housing loans/financings over a period of time
 - ✓ Outstanding principal of staff housing loans/financings was RM24 billion then
 - ✓ Mandate extends to all future Government's housing loans/financings
- Objectives of securitisation programme
 - ✓ Increase the depth and breadth of the domestic capital market
 - ✓ Promote asset-backed securities (ABS) as a new tool for raising funds from the capital market
 - ✓ Create a pricing benchmark for Malaysia's ABS market
- Since 2004, 5 issues of Residential Mortgage-Backed Securities (RMBS)
 - ✓ 3 Conventional RMBS issuances: RM6 billion
 - ✓ 2 Islamic RMBS issuances: RM4.2 billion



Key Transaction Parties

- Issuing Vehicle: **Cagamas MBS Berhad (CMBS)**

- ✓ a wholly-owned subsidiary of Cagamas Holdings Berhad
- ✓ incorporated as a single purpose entity to securitise the Government's staff housing loans/financings
- ✓ an SPV with bankruptcy-remote features
- ✓ no petition clause for winding up by parties that CMBS contracted with

- Originator and Servicer: **Housing Loans Division of Ministry of Finance (BPP)**

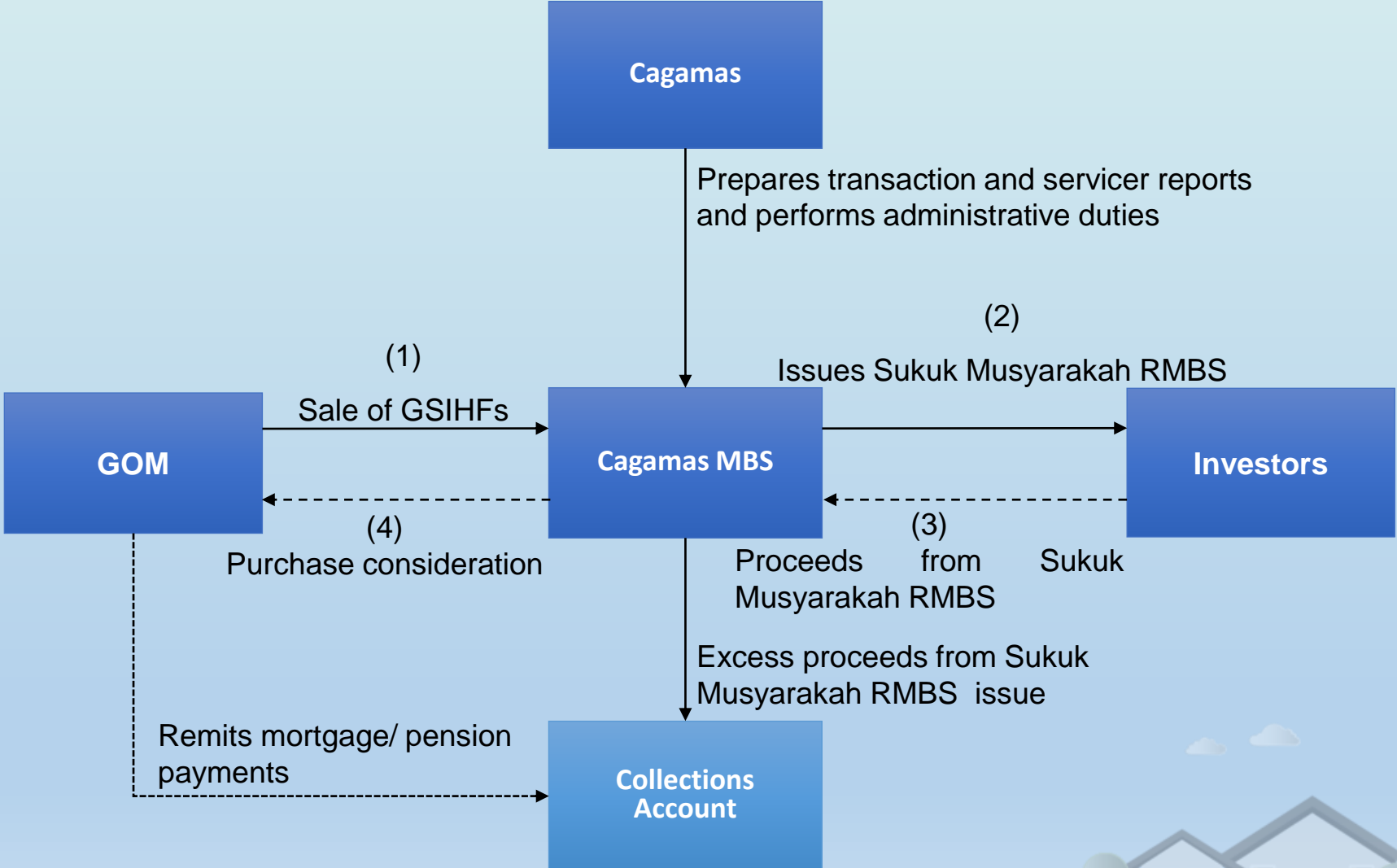
- ✓ Track record in origination and servicing for its own account since 1971

- Administrator and Transaction Administrator: **Cagamas Berhad**

- ✓ Track record in administering this asset class and active role in the transaction from structuring to post-issue
- ✓ Strong shareholders: Bank Negara Malaysia (BNM), Commercial Banks and Investment Banks



Issuance of RM2.05 billion Sukuk Musyarakah RMBS



Issuance of RM2.05 billion Sukuk Musyarakah RMBS

Creating the Venture

- Initial investors contribute capital

Profit and Loss Sharing

- Investors participate in profits and losses from the Musyarakah Venture
- Investors waive their rights to profit payments beyond specified threshold

Role of the Issuer

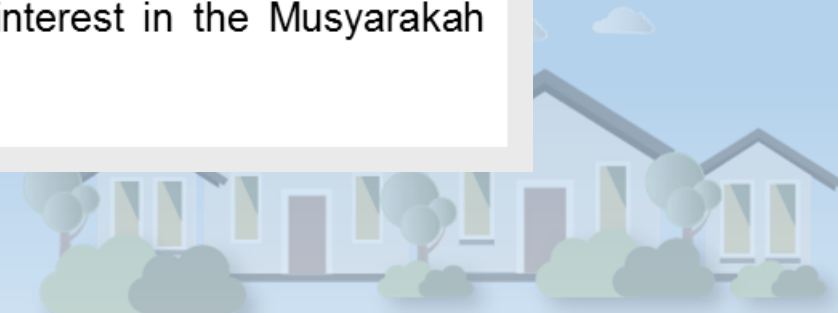
- Issuer acts as trustee and agent of Sukuk holders for the Musyarakah Venture

The Venture

- Purchase of Islamic home financing portfolio

The Sukuk

- Sukuk evidence proportionate beneficial interest in the Musyarakah Venture



Summary Terms of the Offering

Issuer

- Cagamas MBS Berhad

Issue

- RM2.05 billion Sukuk Musyarakah RMBS issue comprising the following :

Tenure (Years)	Issue Amount (RM million)	Maturity Date	Profit Rate (%)	Spread over MGS (basis points)
3	250	08-Aug-2008	3.41	27
5	215	06-Aug-2010	3.84	46
7	260	08-Aug-2012	4.24	47
10	515	08-Jul-2015	4.71	51
12	410	08-Aug-2017	5.01	68
15	400	08-Jul-2020	5.27	73

Rating

- AAA by MARC and RAM

Profit payment

- Quarterly

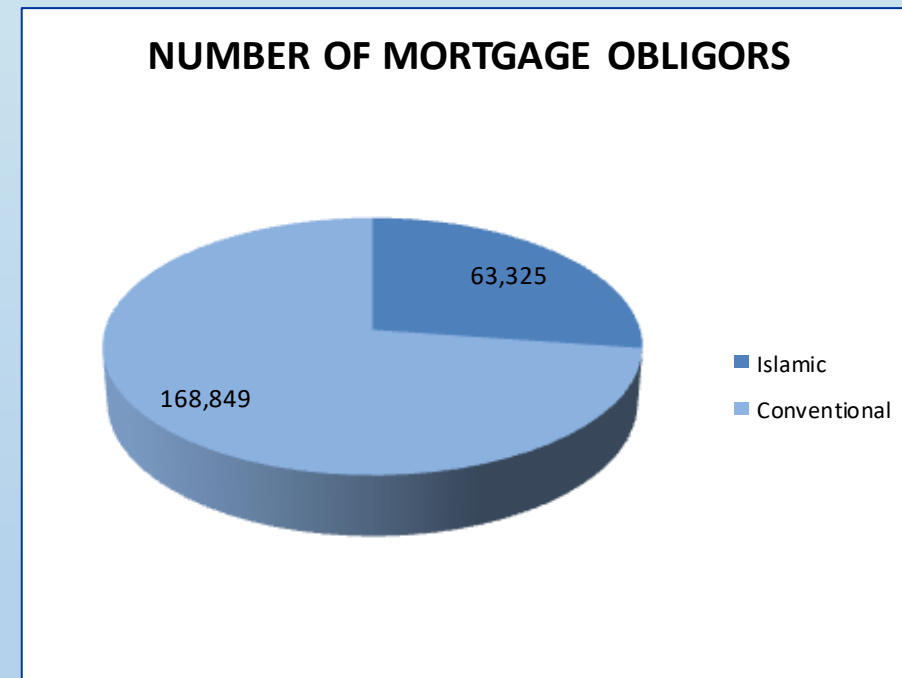
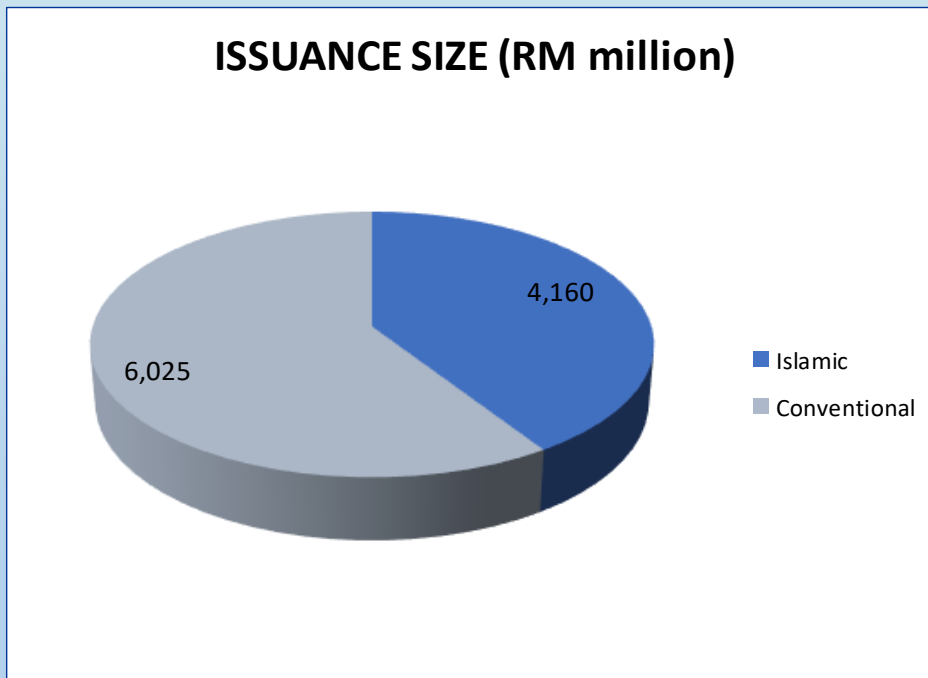
Issuance Date

- 8 August 2005



Summary of Issuances and Mortgages Purchased

- From 2004 – 2007, CMBS issued RMBS amounted to RM6 billion (168,849 obligors) as compared to Sukuk Musyarakah RMBS of RM4.2 billion (63,325 obligors)



Asset Characteristics



Key Features

Government Staff Islamic Home Financing

Key Features

Subsidised product

Typical Islamic retail mortgages

Matured operations (since 1971)

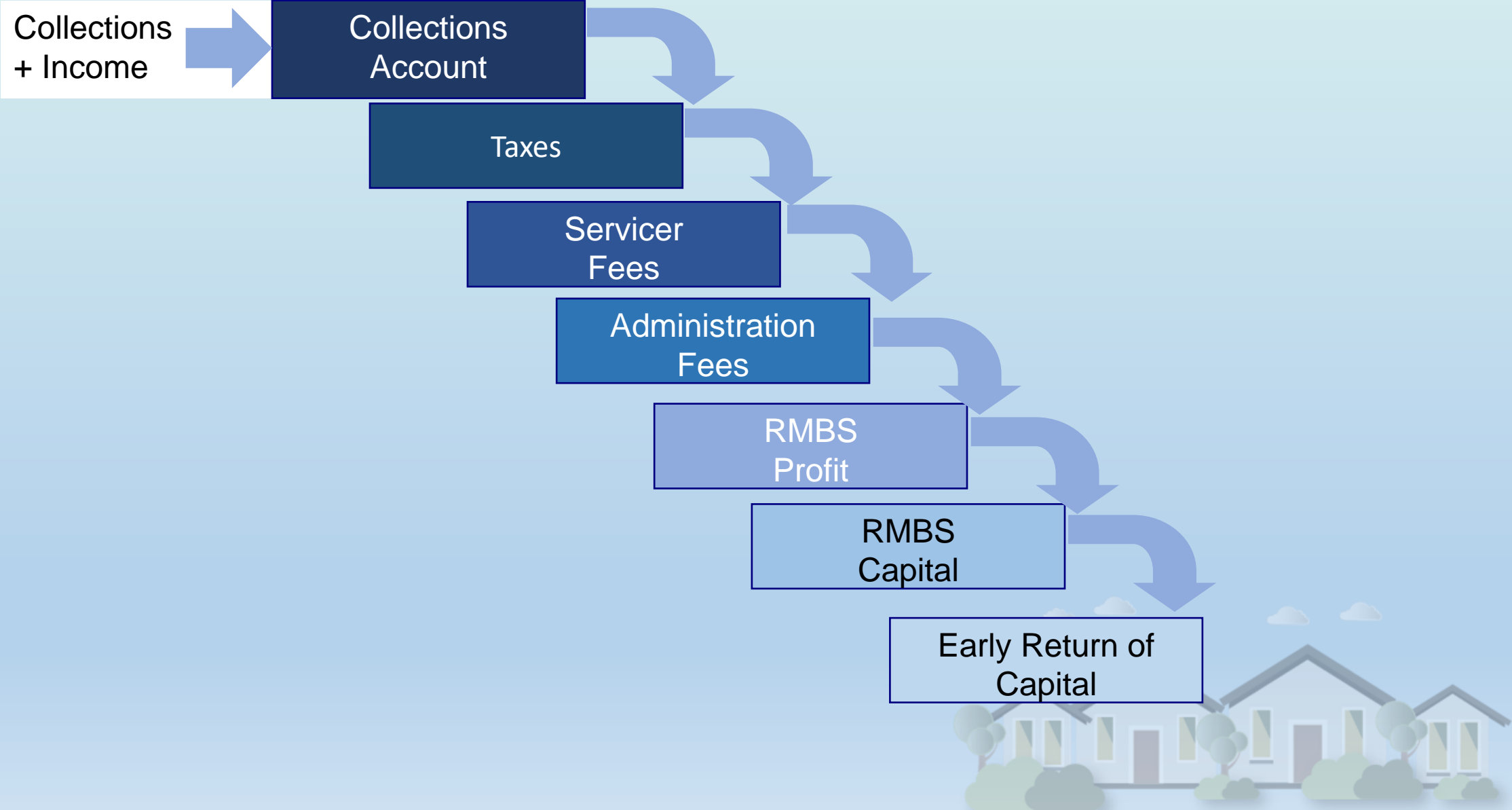
Predefined comprehensive origination standard

Predefined strict mortgage quantum

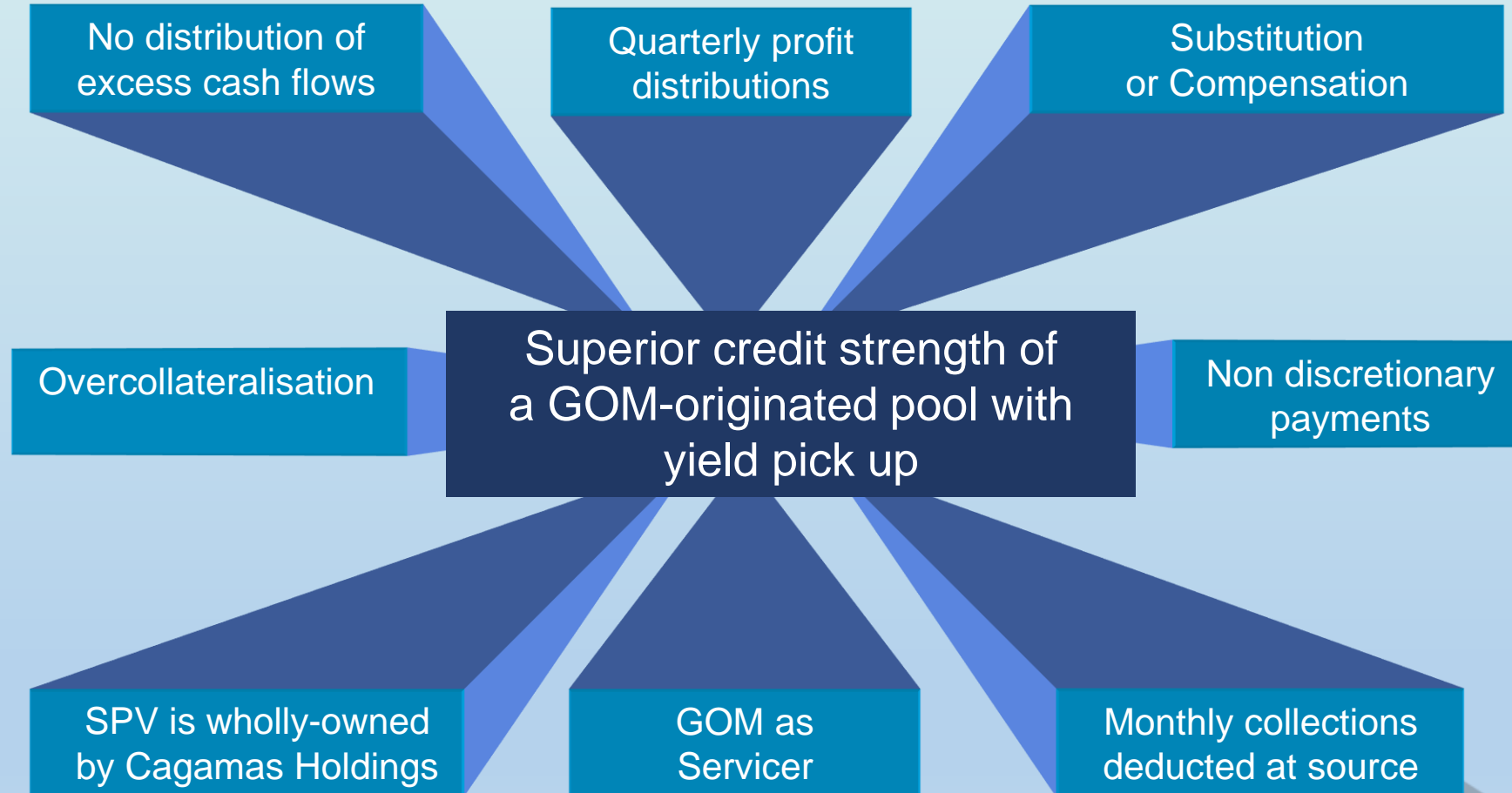
Non-discretionary servicing



Cash Flow Waterfall



Key Structural Strengths



Eligibility Criteria

Eligibility Criteria

- Salaried GOM employee or pensioned GOM employee
- Payment via salary or pension deductions
- Salary/Pension \geq Monthly Instalment
- Mortgage Reducing Term Takaful (MRTT) \geq Outstanding principal amount
- Fully disbursed and no remaining GOM obligations in respect of the financing



Benefits of Islamic Securitisation to financial institutions



Benefits

- **Capital Management Tool**
 - ✓ Banks can use securitization to free up capital employed on balance sheet to be redeployed
- **Risk Management**
 - ✓ Securitisation can be used for portfolio re-balancing to achieve an optimal portfolio risk exposure
- **Support business growth**
 - ✓ Freed up capital can be used to:
 - support economic growth
 - grow the business for sectors that were previously cap by portfolio concentration limits
- **To enhance return on capital employed**
 - ✓ Profitability multiplier with the same amount of capital employed
- **Support ESG initiatives**
 - ✓ Affordable housing home financing securitization for social objective
 - ✓ Green housing home financing securitization for environmental objective



Role and Impact of Cagamas



Role and Impact of Cagamas

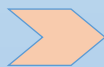
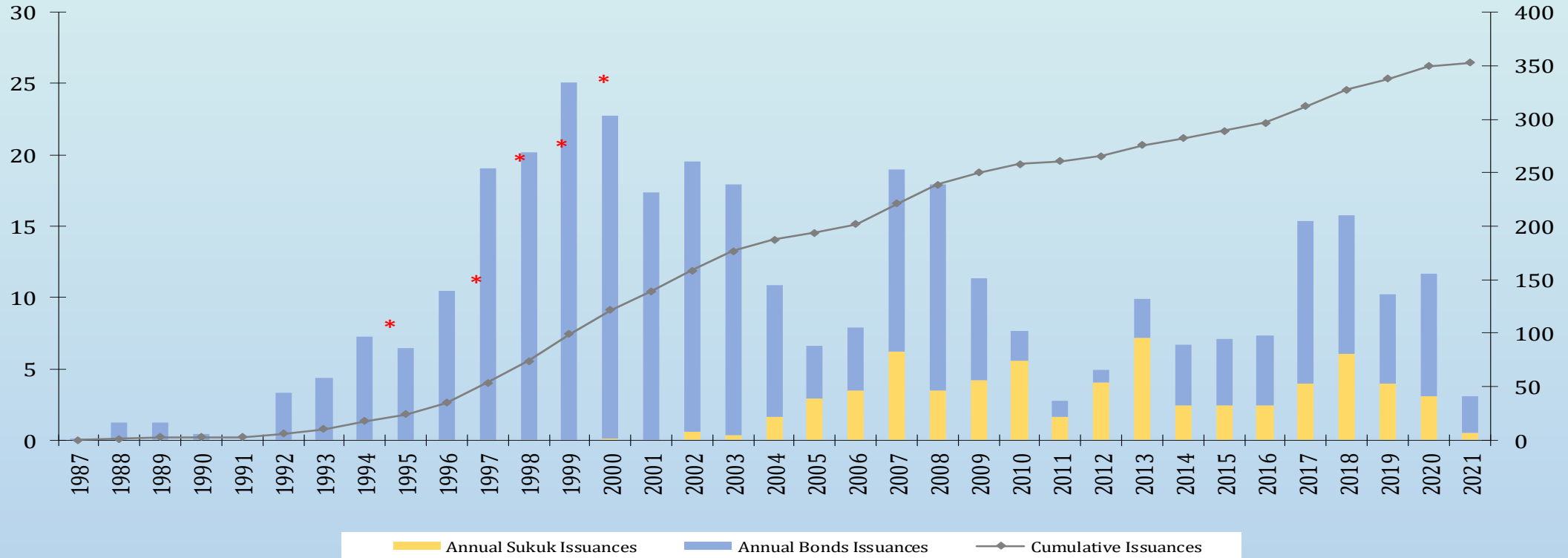
- **Promote home ownership/home accessibility and affordability in Malaysia**
 - ✓ Link the mortgage market to the capital market
 - ✓ Provide access to competitively-priced and longer term funds of up to 20 years
 - ✓ Promote the origination of longer tenure house financing, making them more affordable
- **Develop the Islamic financial sector**
 - ✓ Significant player in the sukuk market
 - ✓ Enhance the quality of Islamic capital market via structuring of high investment grade sukuk
 - ✓ Support the promotion of Malaysia as an International Islamic Financial Centre (MIFC)
- **Develop the Malaysian Capital Market**
 - ✓ Significant player in the debt securities market -2nd largest issuer of debt securities after the Government of Malaysia.
 - ❖ 20% of total AAA Issuance in 2020
 - ✓ Provide an alternative form of investment in high quality PDS for investors to invest their surplus funds
- **Enhance and support in the stabilisation of the financial sector**
 - ✓ Provide credit and portfolio risk management, and capital management solutions
 - ✓ Conduit to remove systemic risk in the financial sector



CAGAMAS TOTAL ISSUANCE TO DATE

(MYR billion)

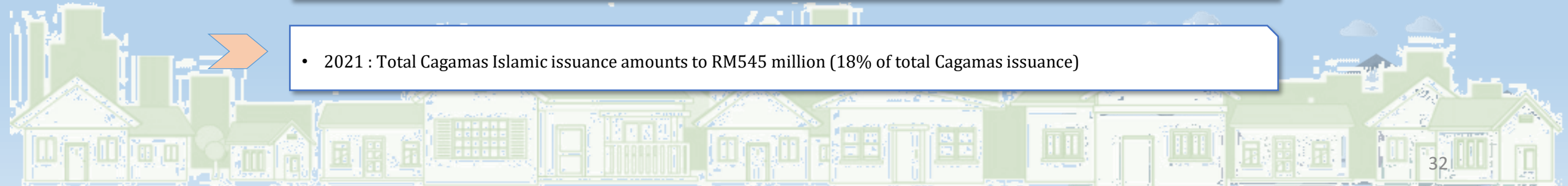
(MYR billion)



- Issuance composition 80% Conventional Bonds and 20% Sukuk since its inception.

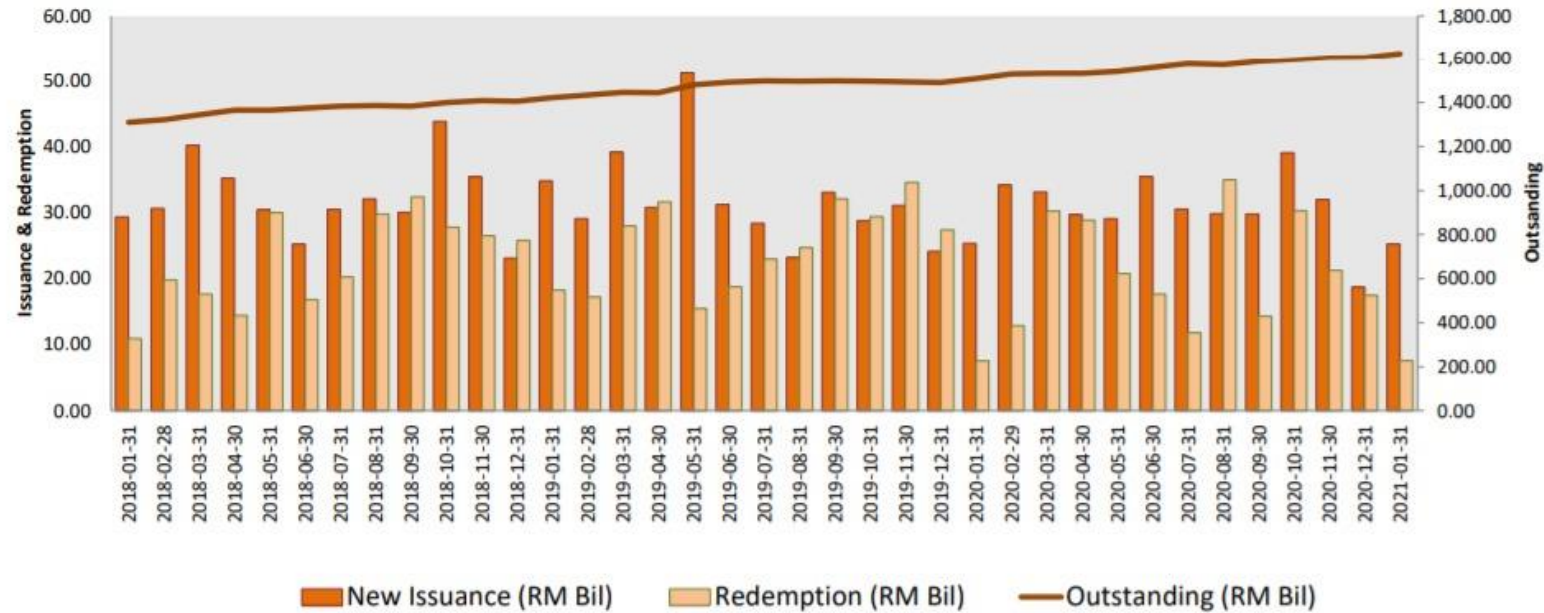


- 2021 : Total Cagamas Islamic issuance amounts to RM545 million (18% of total Cagamas issuance)



TOTAL ISSUANCE OF BONDS AND SUKUK

Bond & Sukuk Statistics



1. Bond & Sukuk Market Statistics

Year	Month	Outstanding (RM Bil)	New Issuance (RM Bil)	Redemption (RM Bil)
2018		1,405.78	385.93	272.06
2019		1,490.28	384.85	300.35
2020		1,609.01	366.67	247.94
2021	Jan 2021	1,626.64	25.23	7.60

- **Cagamas Group** has issued papers worth MYR353 billion to the financial market and has successfully redeemed MYR321 billion with not even a single technical default as at 31 March 2021.

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QUESTIONS?



Leong See Meng
Senior Vice President
Strategy & Business
seemeng@cagamas.com.my

Cagamas Berhad
Registration No. 198601008739 (157931-A)
Level 32, The Gardens North Tower
Mid Valley City, Lingkaran Syed Putra
59200 Kuala Lumpur
Malaysia



+603 - 2262 1800



www.cagamas.com.my



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