



Cagamas Berhad

National Mortgage Corporation of Malaysia

Available House Financing Instruments in ASEAN Region

Islamic Finance & Sukuk

6th October 2016





SECTION 1

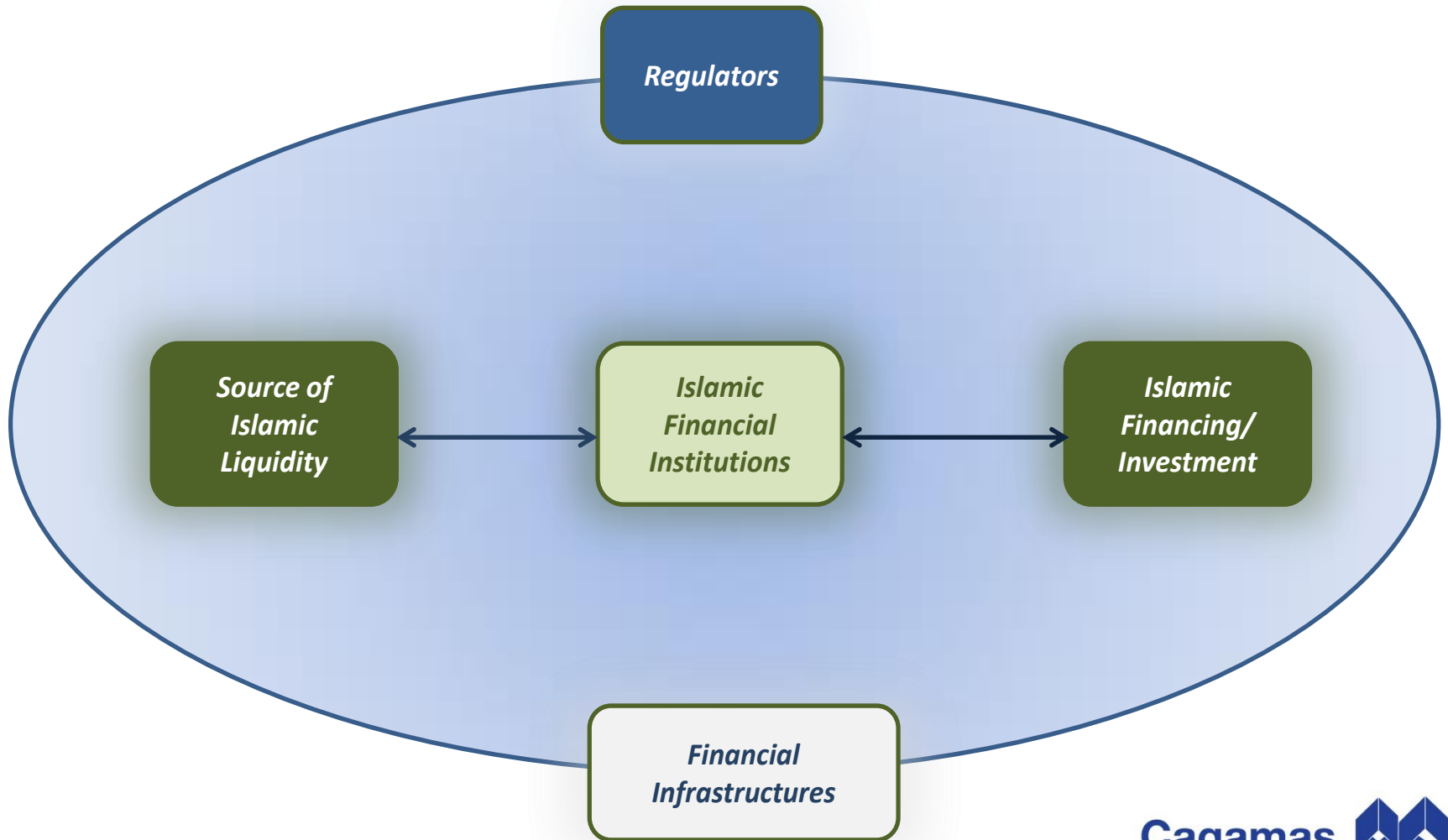
Islamic Finance Ecosystem





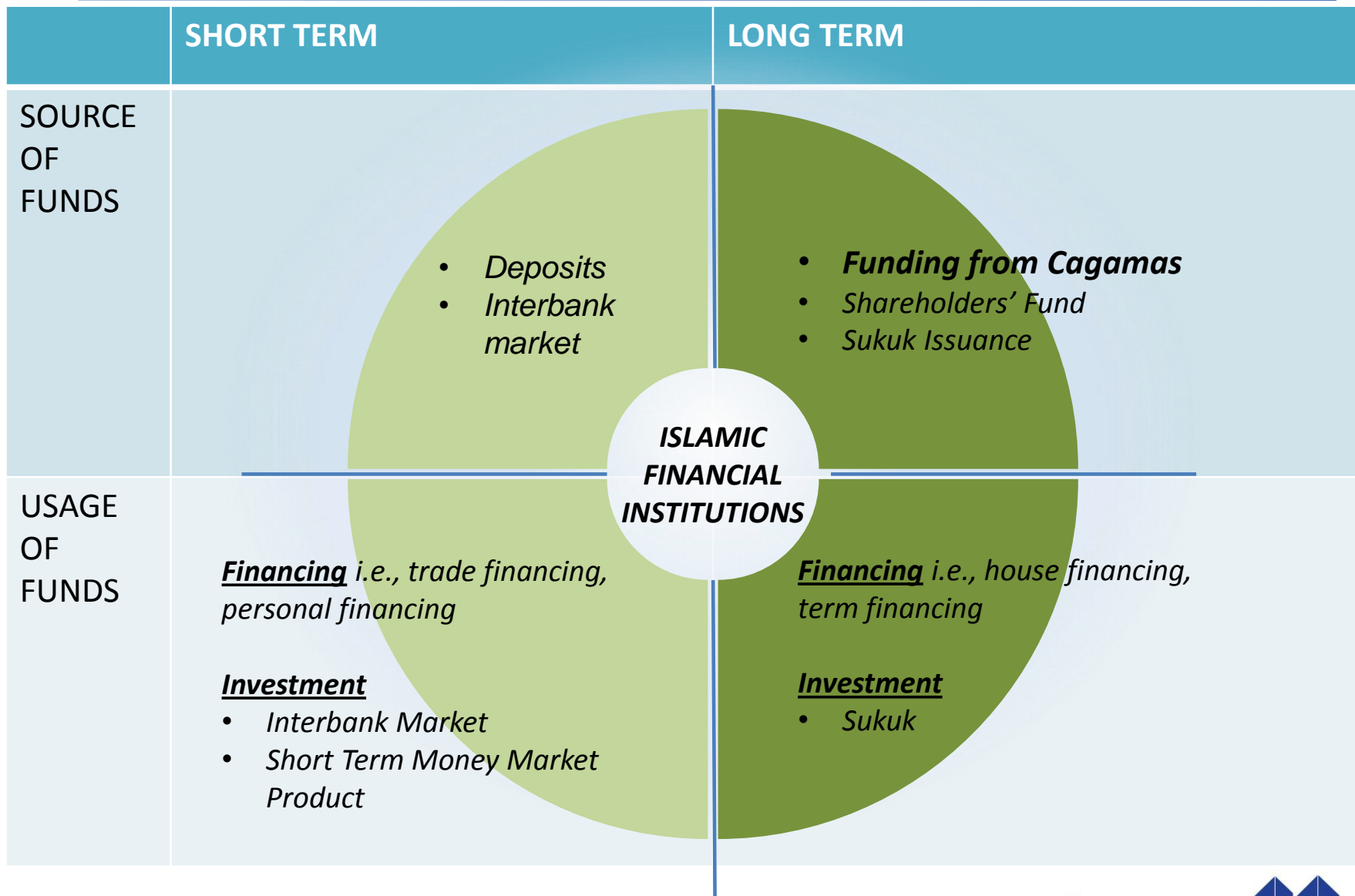
Islamic Finance Ecosystem

Since the establishment of Pilgrims Fund Board in 1963, the development of Islamic Finance Ecosystem continues



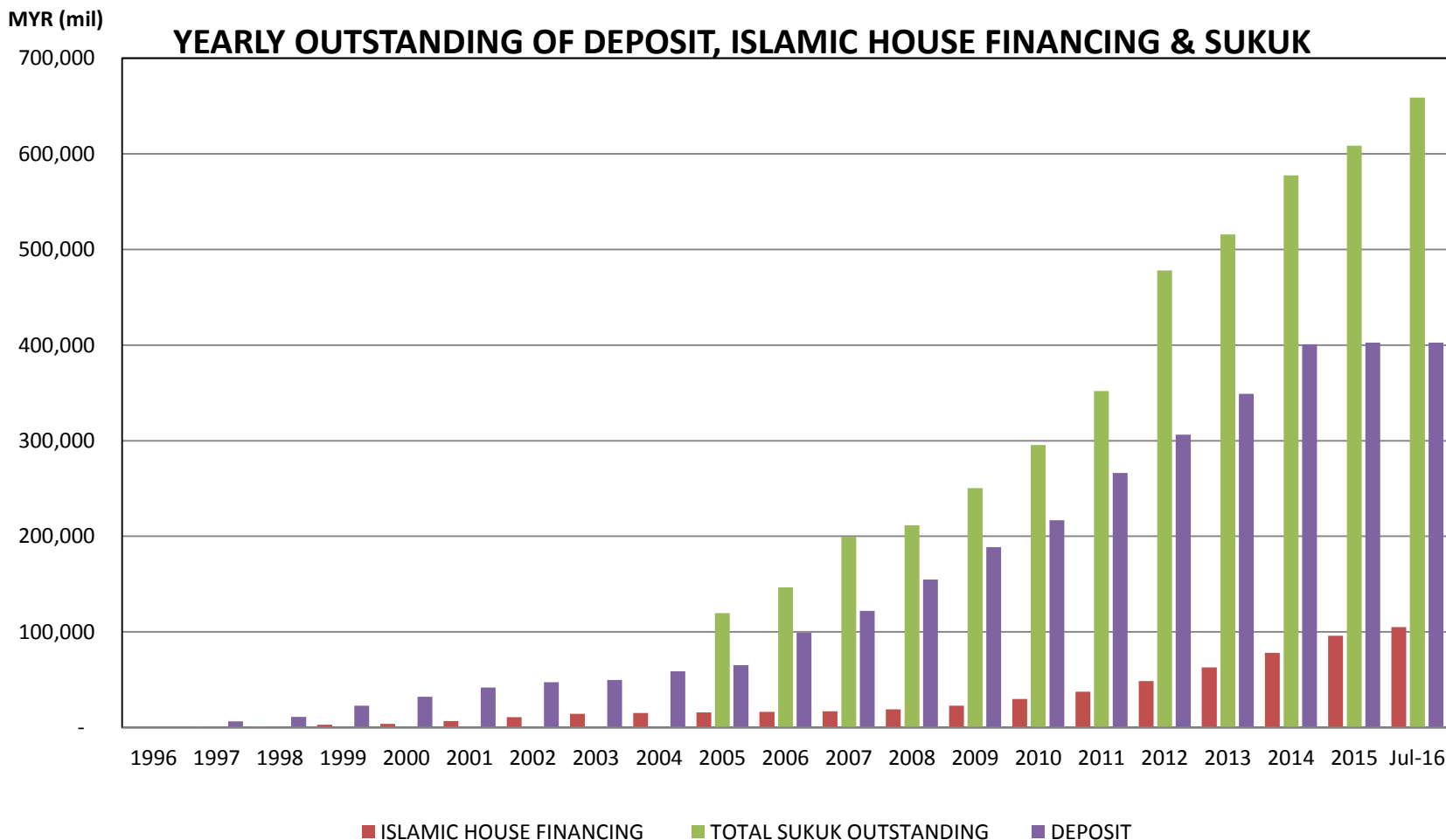


Islamic Finance Ecosystem





Growth in Sukuk Market fuels increase in Islamic House Financing via sukuk issuances from Cagamas



- Cagamas mobilizes short term liquidity in the system and provides long term funding to the Islamic Banks through issuance of Sukuk to spur the secondary mortgage market of Islamic house financing



SECTION 2

Islamic House Financing in Malaysia





Evolution of Primary Islamic Mortgage Market in Malaysia



Bai Bithaman Ajil

Deferred Payment Sale

- Fixed Rate

Bai Bithaman Ajil

Deferred Payment Sale With Ibra' (Rebate)

- Floating With Cap

Musarakah Mutanaqisah

Diminishing Partnership

- Floating Rate (With/Without Cap)

Ijarah Muntahiah Bittamlik

Lease Ending With Ownership

- Fixed Rate
- Floating Rate (With/Without Cap)

Murabahah Tawarruq

Cost-Plus via Tripartite Sale

- Fixed Rate
- Floating With Cap

Industry Wide



National Mortgage Corporation of Malaysia



General Features of Islamic House Financing in Malaysia

Same credit evaluation and same security/collateral arrangement as conventional housing loan

Financing for both **Under Construction** and **Completed** houses

Up to **35 years** tenure or **age 60**, whichever is earlier

Mortgage Reducing Term Takaful (MRTT) coverage

No compounding of profit and other charges

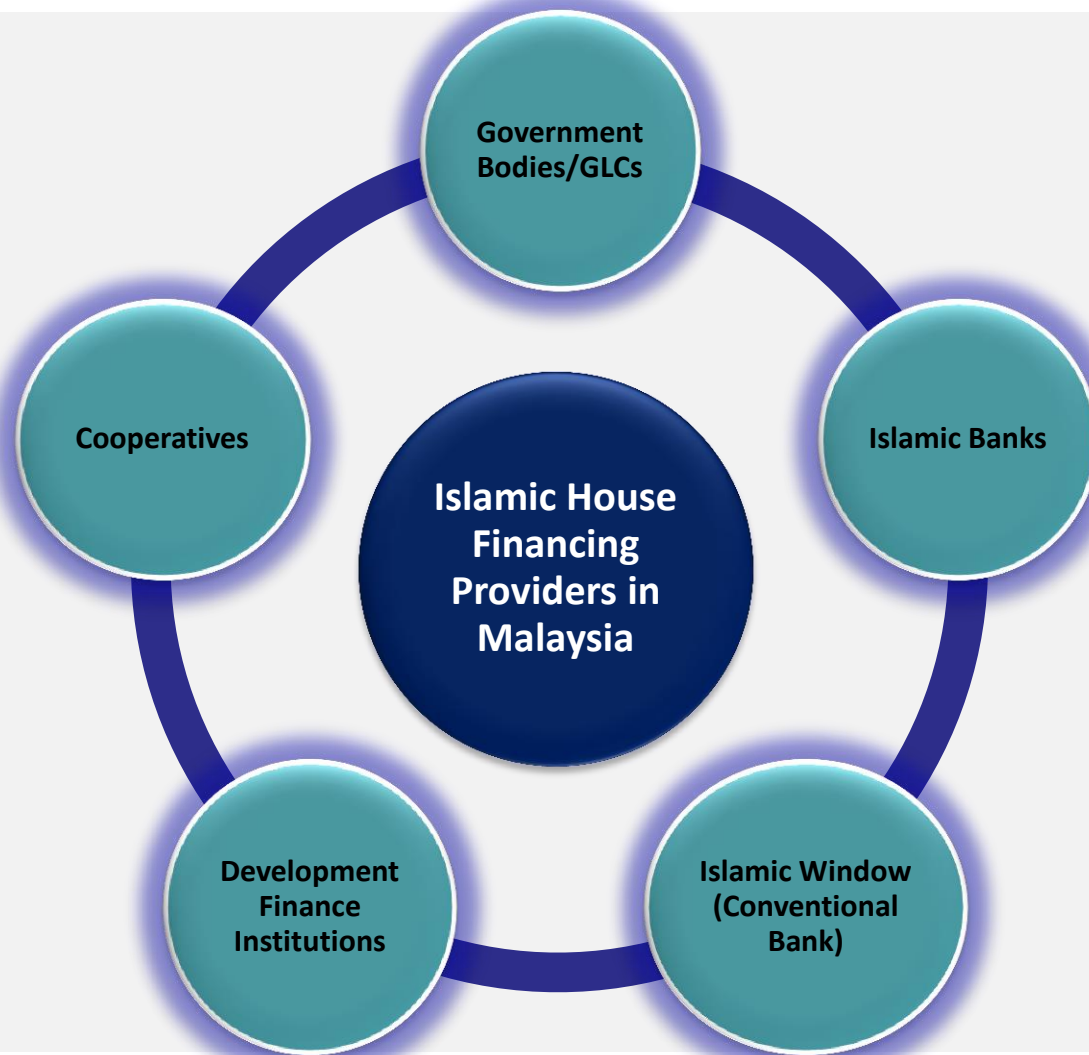
Late payment charges subject to Shariah treatment of **Ta'widh** (compensation) and **Gharamah** (fine/penalty)

20% reduction on stamp duty for new financing

Waiver of stamp duty for conversion/refinancing from conventional housing loan



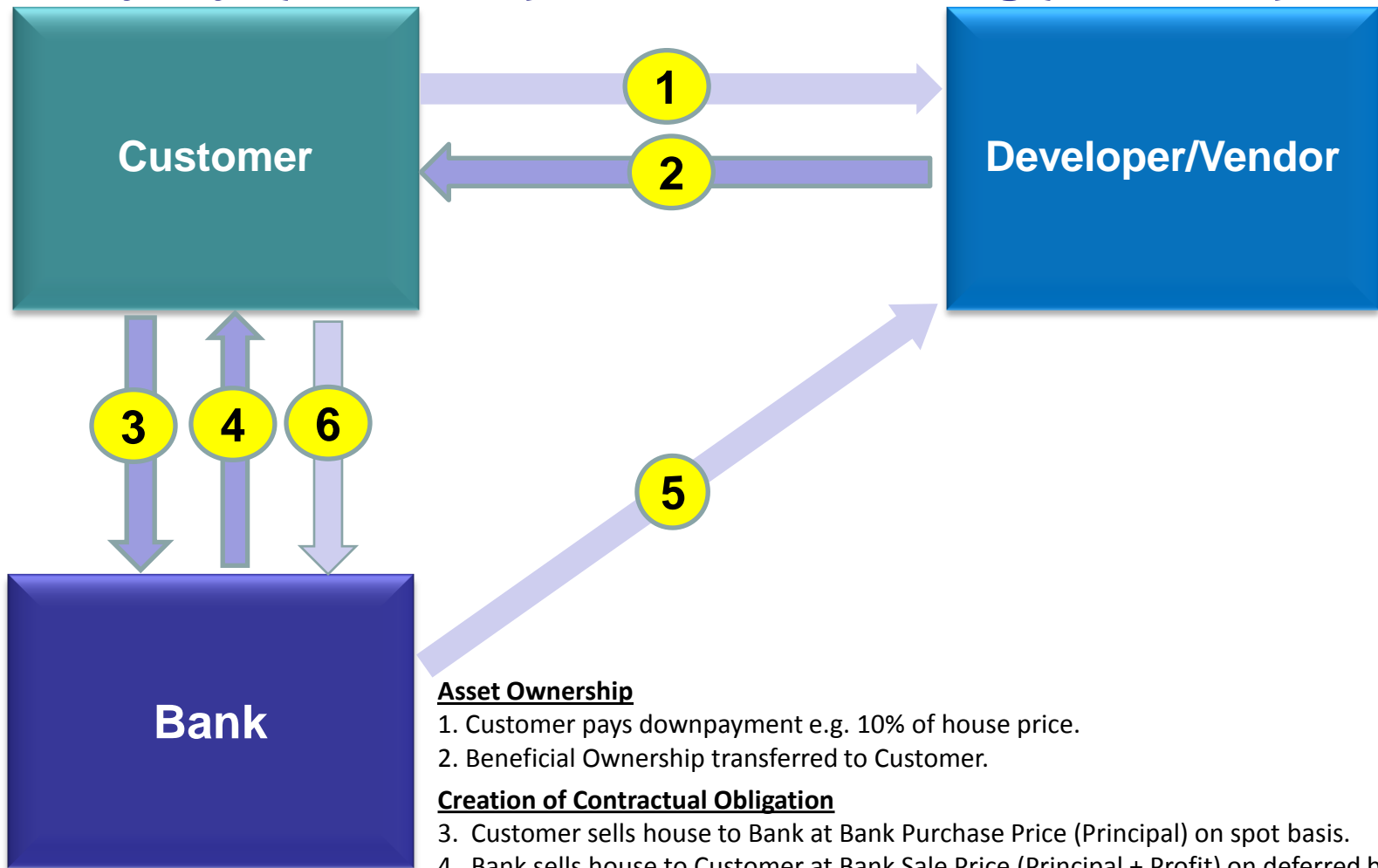
Providers of Islamic House Financing in Malaysia





Structures for Islamic House Financing in Malaysia

Early Days (1983-2003): BBA House Financing (Fixed Rate)



Asset Ownership

1. Customer pays downpayment e.g. 10% of house price.
2. Beneficial Ownership transferred to Customer.

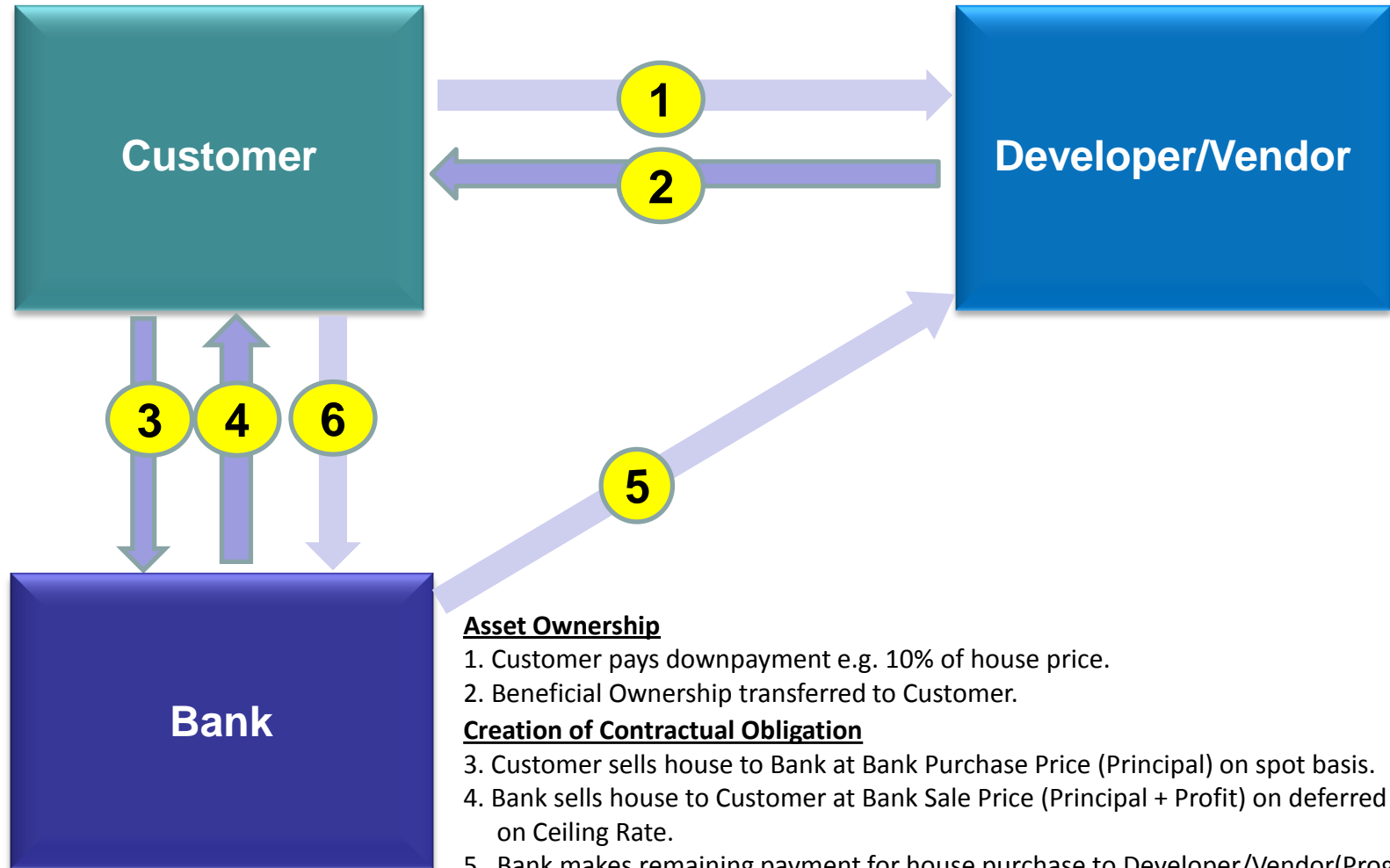
Creation of Contractual Obligation

3. Customer sells house to Bank at Bank Purchase Price (Principal) on spot basis.
4. Bank sells house to Customer at Bank Sale Price (Principal + Profit) on deferred basis.
5. Bank makes remaining payment for house purchase to Developer/Vendor (Progress/Full).
6. Customer pays Monthly Instalments to Bank.



Structures for Islamic House Financing in Malaysia

Early Days (2003-2011): BBA House Financing (Floating Rate)



Asset Ownership

1. Customer pays downpayment e.g. 10% of house price.
2. Beneficial Ownership transferred to Customer.

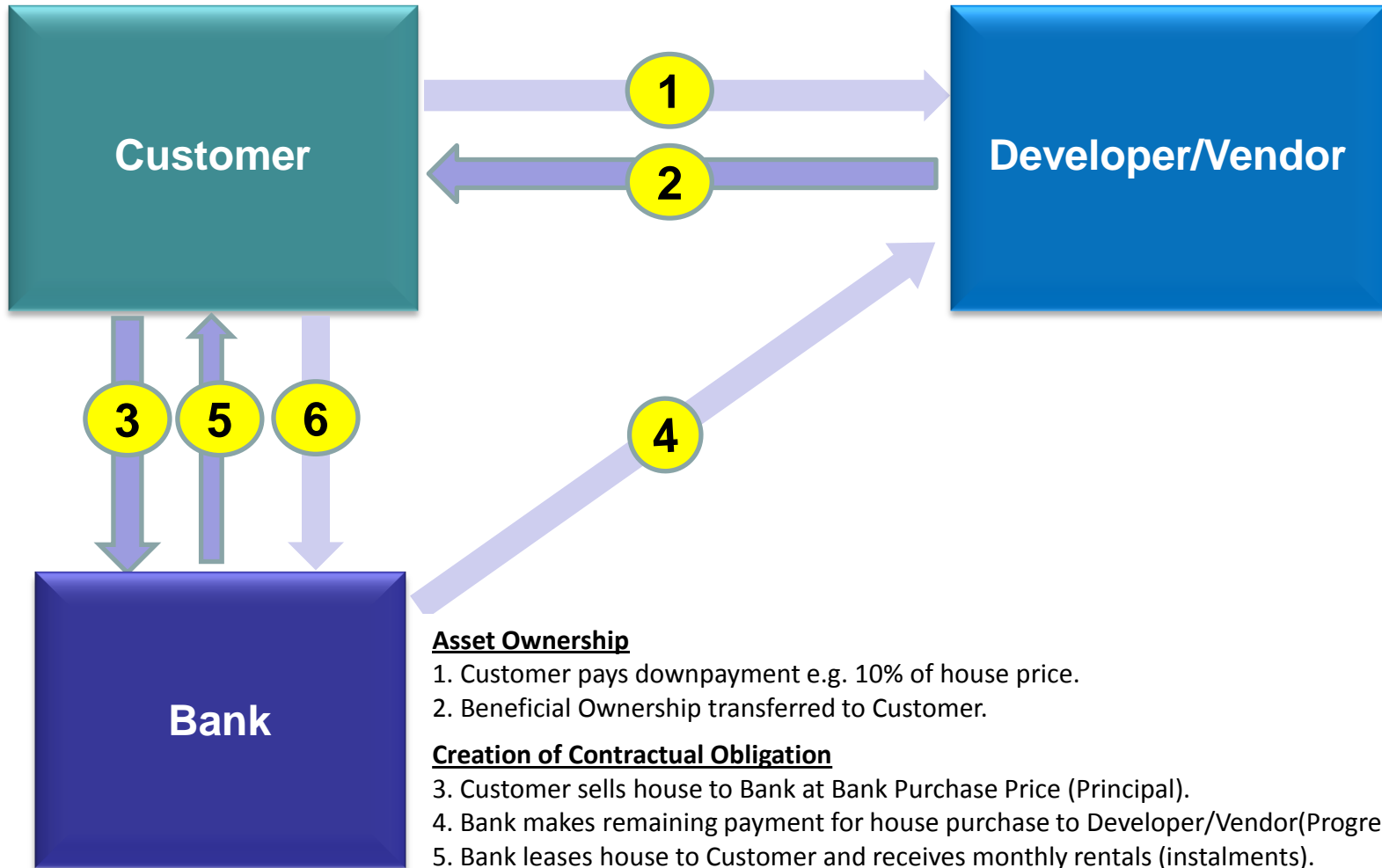
Creation of Contractual Obligation

3. Customer sells house to Bank at Bank Purchase Price (Principal) on spot basis.
4. Bank sells house to Customer at Bank Sale Price (Principal + Profit) on deferred basis based on Ceiling Rate.
5. Bank makes remaining payment for house purchase to Developer/Vendor (Progress/Full).
6. Customer pays Monthly Instalments that is computed based on Effective Rate. Differential between the Effective Rate and Ceiling Rate is considered as Rebate.



Structures for Islamic House Financing in Malaysia

Recent Development : Ijarah Muntahiyah Bittamlik House Financing



Asset Ownership

1. Customer pays downpayment e.g. 10% of house price.
2. Beneficial Ownership transferred to Customer.

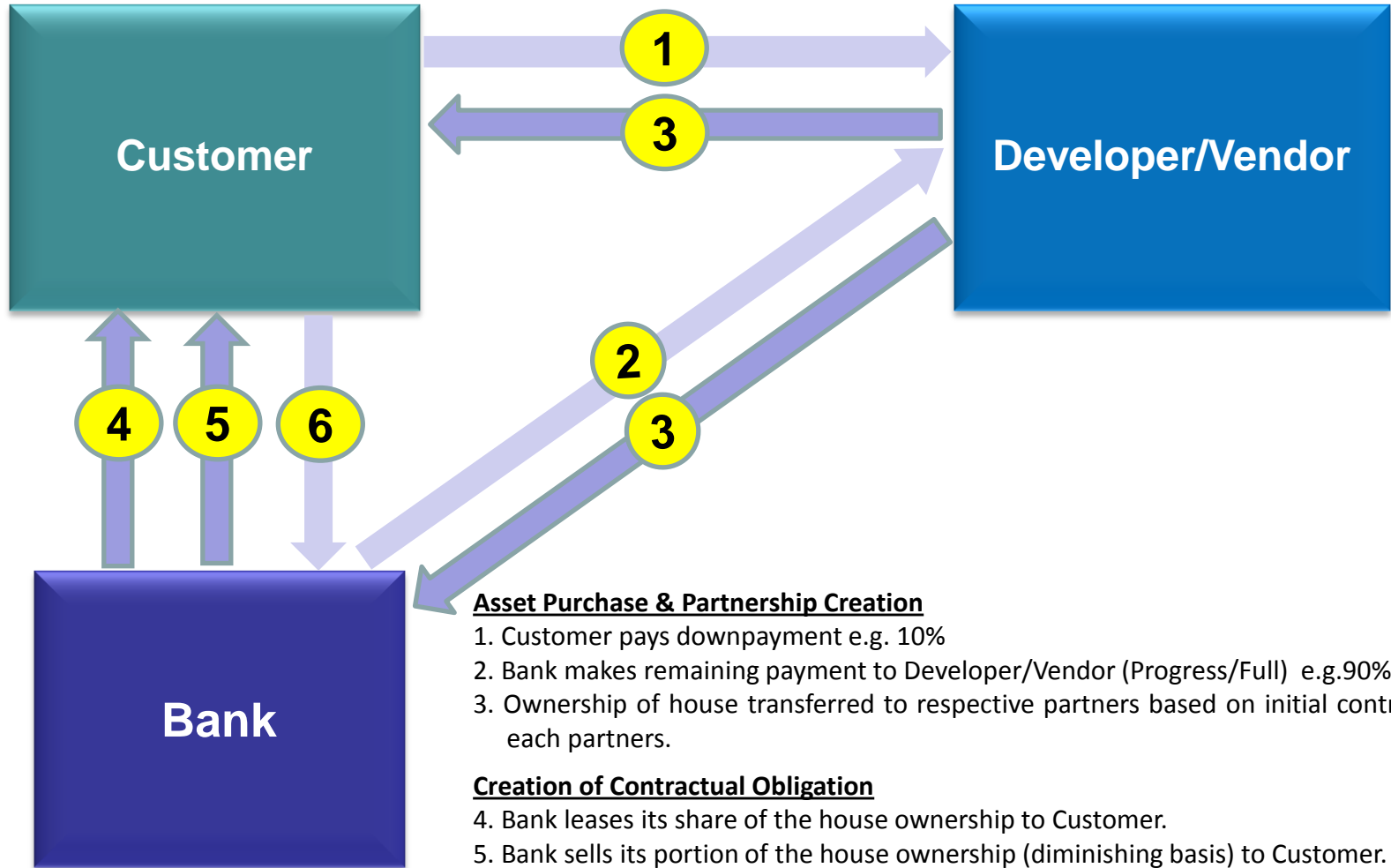
Creation of Contractual Obligation

3. Customer sells house to Bank at Bank Purchase Price (Principal).
4. Bank makes remaining payment for house purchase to Developer/Vendor(Progress/Full).
5. Bank leases house to Customer and receives monthly rentals (instalments).
6. Customer pays Monthly Rental (Monthly Instalments) to Bank.



Structures for Islamic House Financing in Malaysia

Recent Development: Musyarakah Mutanaqisah House Financing



Asset Purchase & Partnership Creation

1. Customer pays downpayment e.g. 10%
2. Bank makes remaining payment to Developer/Vendor (Progress/Full) e.g.90%
3. Ownership of house transferred to respective partners based on initial contributions by each partners.

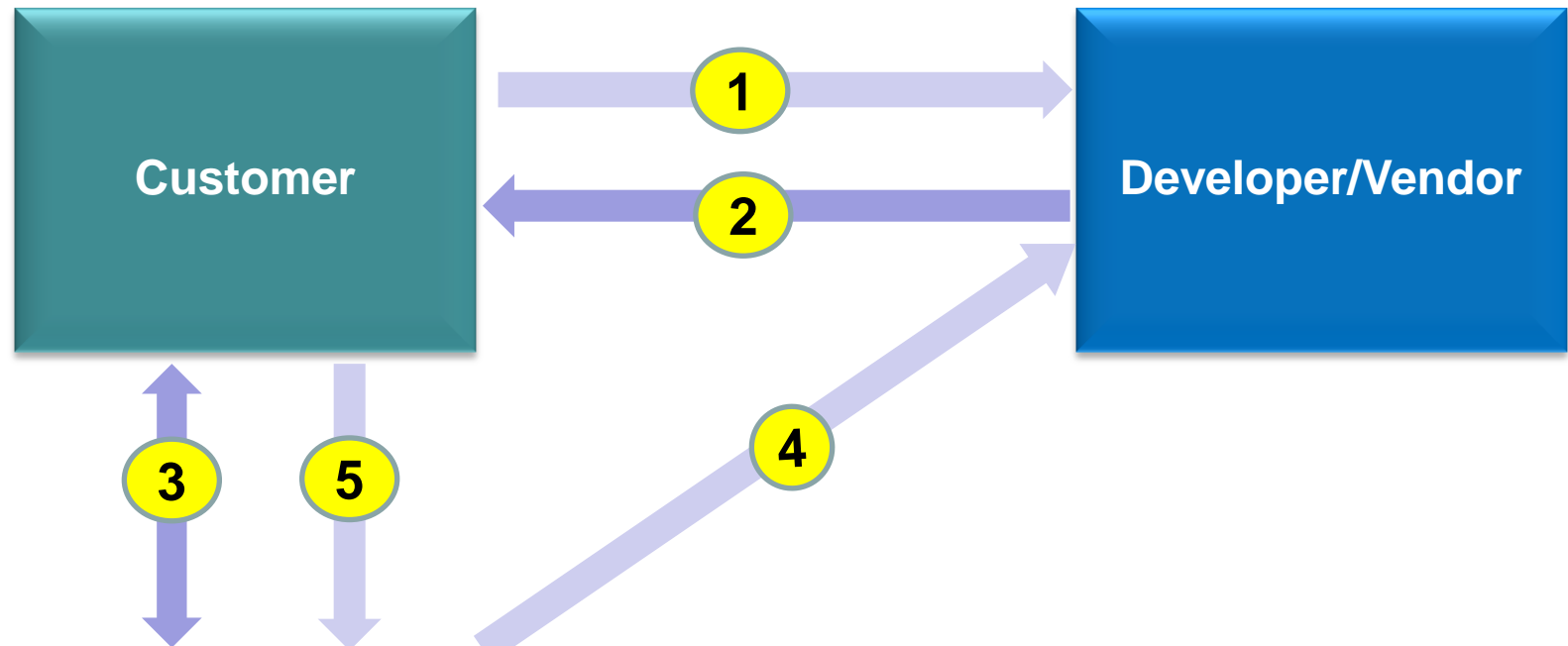
Creation of Contractual Obligation

4. Bank leases its share of the house ownership to Customer.
5. Bank sells its portion of the house ownership (diminishing basis) to Customer.
6. Customer pays rental and asset acquisition payment (Monthly Instalments).



Structures for Islamic House Financing in Malaysia

Recent Development: Murabahah Tawarruq House Financing



Asset Ownership

1. Customer pays downpayment e.g. 10% of house price.
2. Beneficial Ownership transferred to Customer.

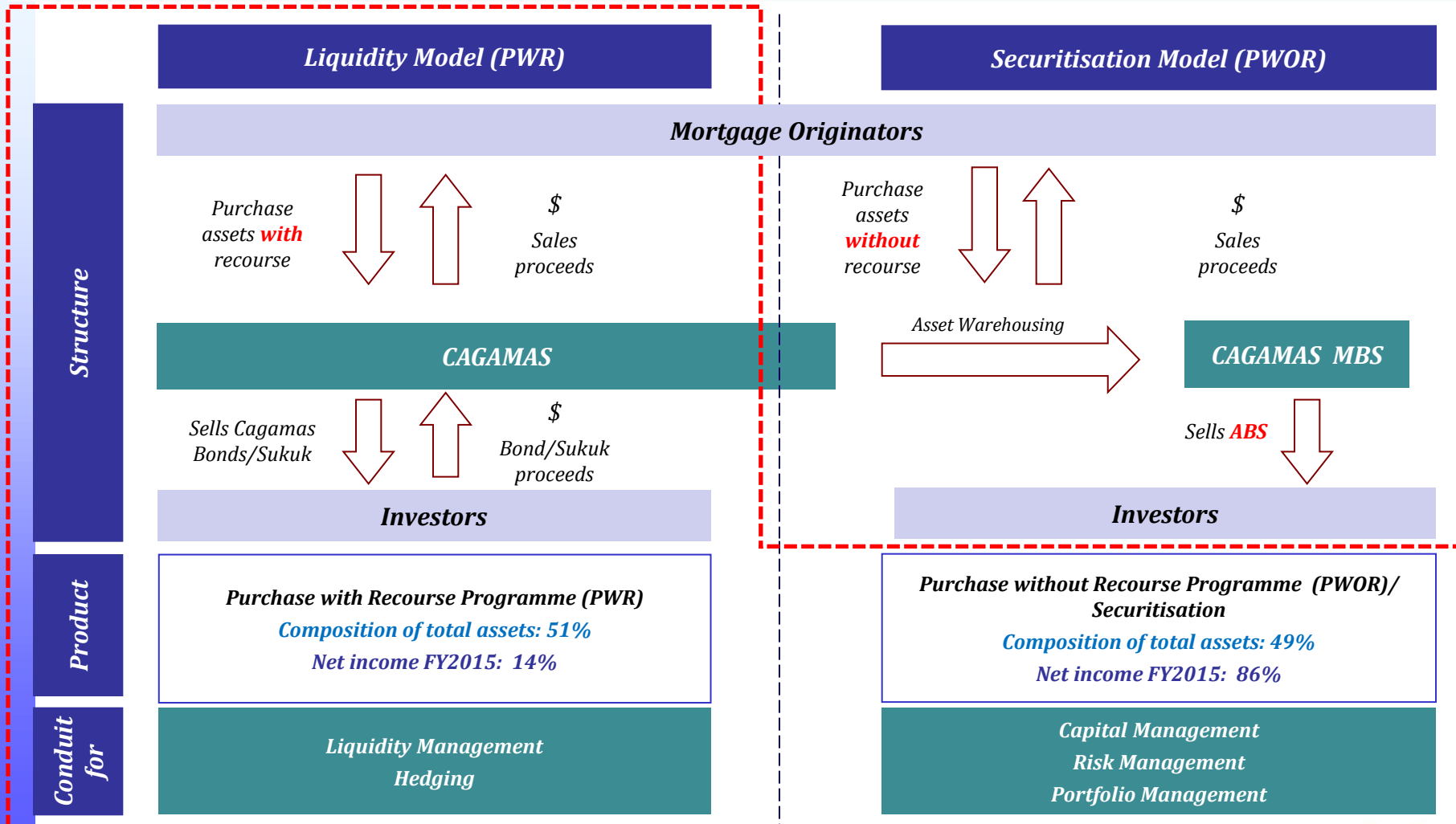
Creation of Contractual Obligation

3. Bank enters Murabahah Tawarruq arrangement with Customer for payment of remaining 90% house price to Developer/Vendor.
4. Bank pays proceeds from Murabahah Tawarruq arrangement to Developer/Vendor (Progress/Full)
5. Customer pays Monthly Instalments for settlement of Murabahah Tawarruq obligation to Bank. House is charged as security.



Secondary Mortgage Market in Malaysia: Cagamas Model

Cagamas purchases loans and financing under 2 schemes - Purchase with Recourse (PWR) and Purchase without Recourse (PWOR)

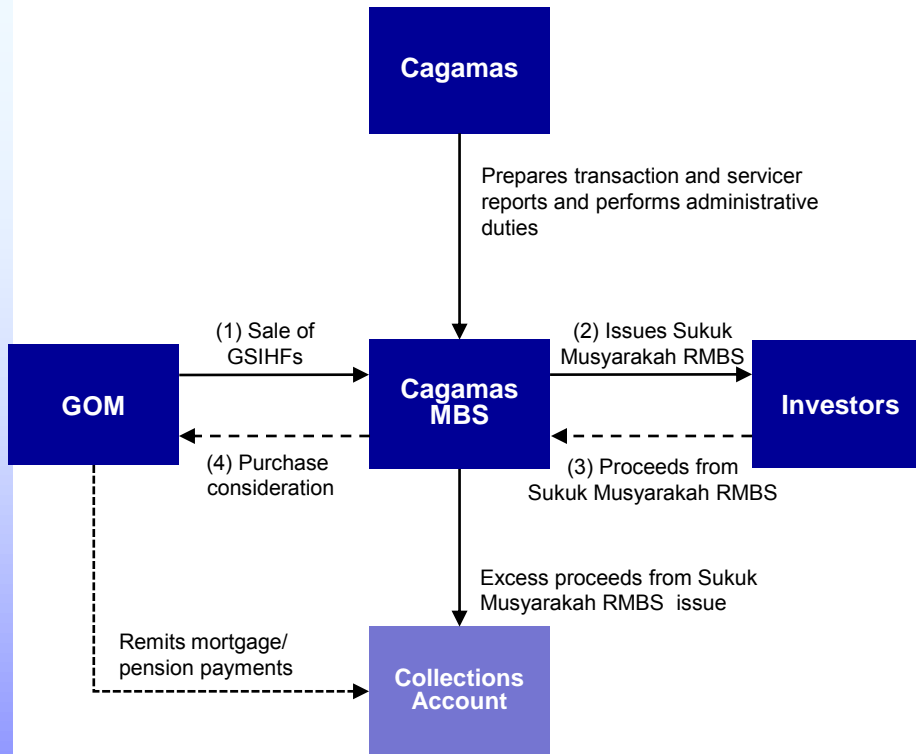


Cagamas Berhad





Securitisation under Sukuk Musyarakah RMBS Structure



Creating the Venture	<ul style="list-style-type: none"> Initial investors contribute capital
Profit and Loss Sharing	<ul style="list-style-type: none"> Investors participate in profits and losses from the Musyarakah Venture Investors waive their rights to profit payments beyond specified threshold
Role of the Issuer	<ul style="list-style-type: none"> Issuer acts as trustee and agent of Sukuk holders for the Musyarakah Venture
The Venture	<ul style="list-style-type: none"> Purchase of Islamic home financing portfolio
The Sukuk	<ul style="list-style-type: none"> Sukuk evidence proportionate beneficial interest in the Musyarakah Venture

Transaction Background

- (1) GOM as originator sells a pool of Government staff Islamic home financing (GSIHF) to Cagamas MBS Berhad (CMBS)
- (2) CMBS issues Sukuk Musyarakah Residential Mortgage-Backed Securities (RMBS) to onshore and offshore investors
- (3) CMBS receives Sukuk Musyarakah RMBS issuance proceeds
- (4) CMBS pays purchase consideration for the GSIHF to GOM

GOM – Government of Malaysia



Cagamas' Islamic Multicurrency MTN Programme

Programme Highlights

Islamic Multicurrency MTN Programme (established November 2014)	
<i>Type</i>	<i>Islamic</i>
<i>Programme Size</i>	<i>USD2.5 billion</i>
<i>Programme Tenure</i>	<i>Perpetual</i>
<i>Rating</i>	<i>A3 by Moody's Investors Service, Inc.</i>
<i>Issue Format</i>	<i>Regulation S</i>
<i>Governing Laws</i>	<i>English Laws</i>
<i>Structure</i>	<i>Wakala</i>

Wakala Assets

Types of Eligible Wakala Assets	
<i>1.</i>	<i>Fixed asset e.g. building, land</i>
<i>2.</i>	<i>House Financing based on Ijarah / Musyarakah Mutanaqisah</i>
<i>3.</i>	<i>Sukuk owned by Cagamas e.g. Sukuk Ijarah, Sukuk Wakalah Bil Istithmar (asset portion)</i>



Cagamas' Islamic Multicurrency MTN Programme

Benefits to Cagamas

- *Reduce over-reliance on a single benchmark for pricing (MGS/GII for MYR)*
- *Potential cheaper cost of funding through diversification of funding sources*
- *Access liquidity from larger international Islamic capital market*
- *Funding of potential purchase of non-Ringgit assets*
- *Developmental role in deepening and broadening the Malaysian and international debt capital market*
- *Reduce overcrowding effect in domestic market*

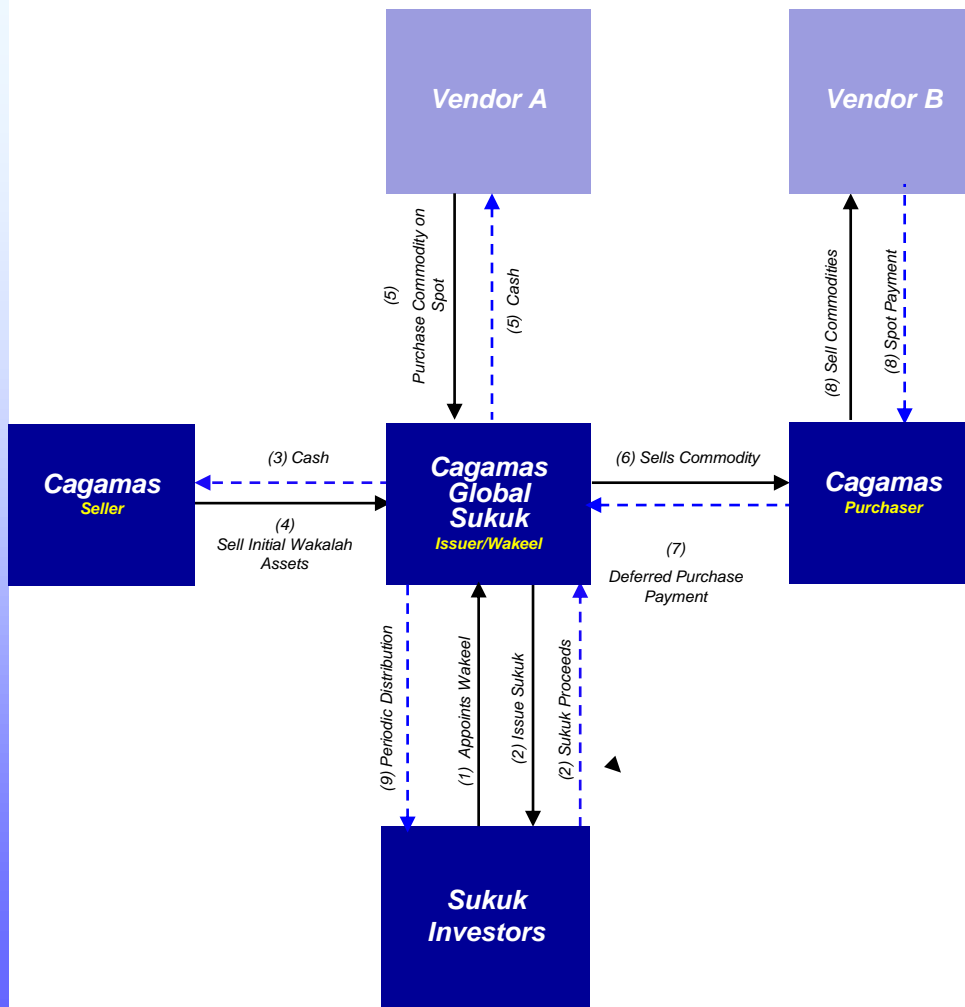


Cagamas' Islamic Multicurrency Sukuk Issuances

	2015	2016
Transaction	<i>Purchase of Islamic House Financing by Cagamas Berhad</i>	
Transaction Value	SGD162.75 million (RM500 million) <ul style="list-style-type: none"> • Inaugural multicurrency issuance via Cagamas Global Sukuk Berhad • 1 year tenure • Priced at 2.11% 	SGD150 million (RM450 million) <ul style="list-style-type: none"> • 2nd multicurrency issuance via Cagamas Global Sukuk Berhad • 1 year tenure • Priced at 2.30 %
Wakala Assets	<i>Islamic House Financing based on Ijarah principles</i>	
Asset Seller	<i>Local Islamic Bank</i>	
Liquidity Tool	<i>Purchase With Recourse (PWR)</i>	
Fund Raising Tool	<i>Sukuk Wakala</i>	



Sukuk Wakalah under Islamic Multicurrency MTN Programme



Transaction Background

- 1) Sukuk Investors appoint Cagamas Global Sukuk (CGS) as its Wakeel (Agent) for investment in Shariah-compliant activities.
- 2) CGS (as Issuer) issues Sukuk to Sukuk Investors to evidence their undivided interest in the Sukuk. Sukuk proceeds are remitted to CGS.
- 3) CGS (as Wakeel) utilises part (min. 34%) of the fund to purchase Initial Wakalah Assets (IWA) from Cagamas (as Seller).
- 4) Cagamas (as Seller) sells the IWA to CGS (as Wakeel). Cagamas (as Seller) remits the cash flow of the IWA to CGS on a periodic basis.
- 5) CGS utilises the remaining fund (66%) to purchase commodities from Vendor A on a spot basis.
- 6) CGS subsequently sells the commodities to Cagamas (as Purchaser) on a deferred basis.
- 7) Cagamas pays CGS on a deferred basis for the purchase of the commodity.
- 8) Cagamas sells commodities to Vendor B on a spot basis.
- 9) CGS makes periodic distribution payments to the Sukuk Investors.

Transaction Highlights

- Structured using globally accepted Shariah principles
- Comply with the requirements of global Shariah standards including AAOIFI
- Precludes the contentious principles of Bai' Inah, Bai' Dayn and Tawarruq Munazzam



Thank You

For further information, please refer to www.cagamas.com.my

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