



# Cagamas Berhad

The National Mortgage Corporation

## Role of Cagamas in the Development of Secondary Mortgage Market in Malaysia

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President/Chief Executive Officer

Shanghai, May 2015

# Agenda

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- Overview of Malaysia's Housing Finance Market
- Malaysian Primary Mortgage Market
- Development of Malaysian Secondary Market : Cagamas Berhad
  - Background of Secondary Mortgage Market
  - History & Structure
  - Role of Cagamas
  - Impact of Setting Up Cagamas
  - Challenges
  - Key Success Factors



# Overview of Malaysia's Housing Finance Market

# Mortgage to GDP : Malaysia and Developing Asia

| Country         | GDP Growth | GDP Size   | Mortgage to GDP |             |
|-----------------|------------|------------|-----------------|-------------|
|                 | 2014       | 2014       | 2014            | 1998        |
|                 | %          | USD Bill   | %               |             |
| China           | 7.4        | 10,380     | 21              |             |
| India           | 7.2        | 2,050      | 9               |             |
| Indonesia       | 5.0        | 889        | 8               |             |
| Thailand        | 0.7        | 374        | 17              |             |
| <b>Malaysia</b> | <b>6.0</b> | <b>327</b> | <b>33</b>       | <b>17.9</b> |
| Singapore*      | 2.9        | 308        | 56              |             |

Mortgage as % of GDP has been on rising trend over the last 16 years

Malaysia's mortgage to GDP ratio is among the highest compared to other developing countries in Asia largely due to :

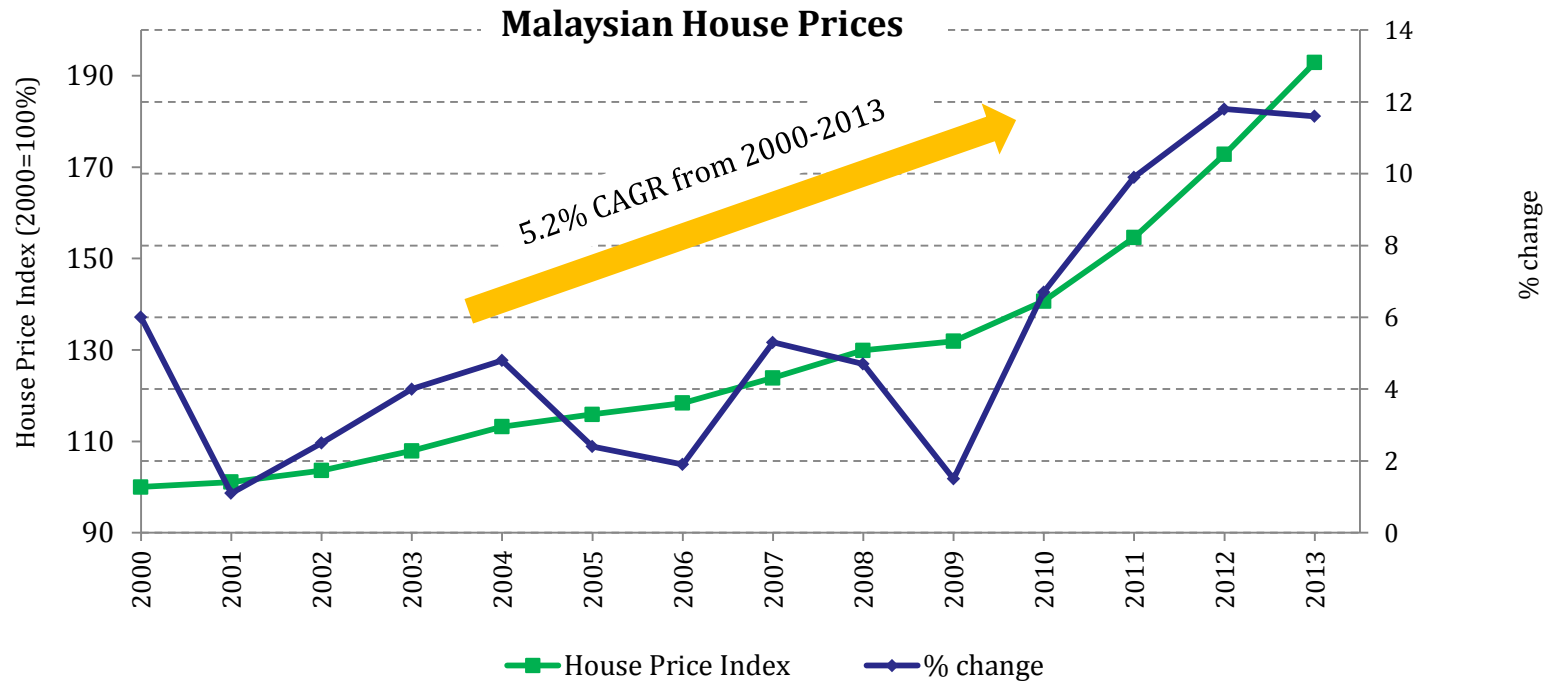
1. Strong and proactive risk based regulation
2. Conservative lending practices

source : IMF, World Economic Outlook Database

\* Singapore falls under Advance Economies

# Housing Development in Malaysia

- Government and private sector play active roles in housing development in Malaysia
- Government via its agencies such as Perumahan Rakyat 1Malaysia Berhad (PR1MA) and Syarikat Perumahan Negara Berhad (SPNB) have been focusing on meeting supply and ensuring home ownership especially for the middle and lower income group



- In recent years, house prices in Malaysia have accelerated upwards since 2010 to reach an annual growth of 11.6% in 2013

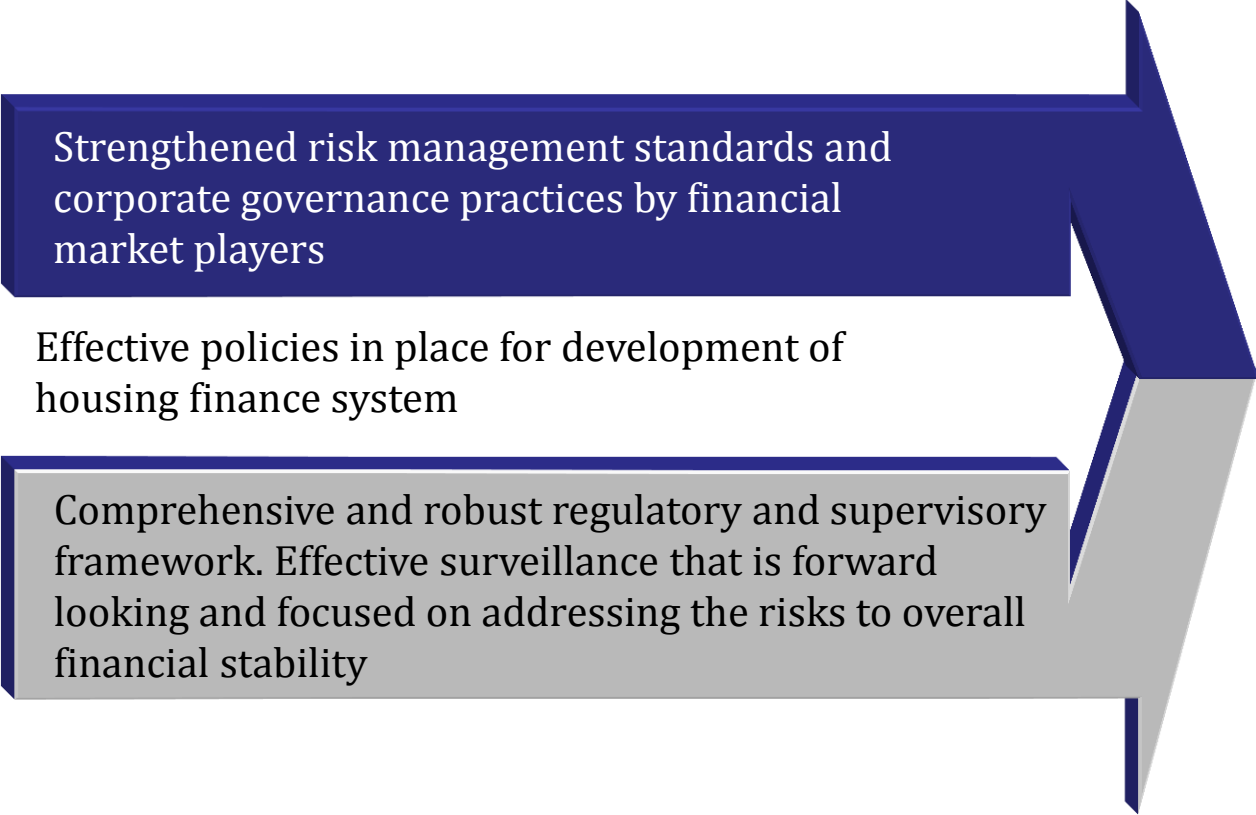
Source: Central Bank of Malaysia, Annual Report (Various years)

# Strengthening the Housing Finance System

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

The regulatory enhancements include:



Strengthened risk management standards and corporate governance practices by financial market players

Effective policies in place for development of housing finance system

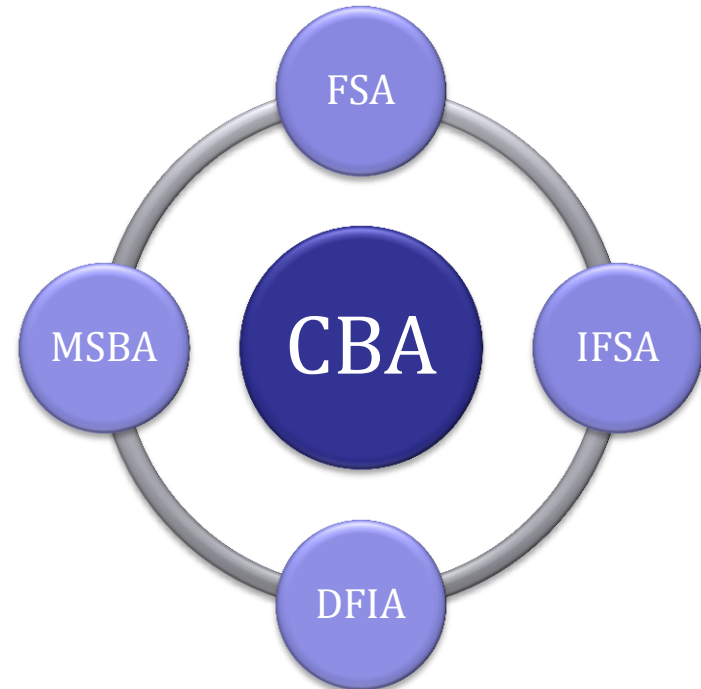
Comprehensive and robust regulatory and supervisory framework. Effective surveillance that is forward looking and focused on addressing the risks to overall financial stability

# Robust Regulatory and Legal Environment

The responsibility to ensure soundness and robustness of the housing finance system lies with the close 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 (70% LTV )
- Loan tenor (max 35 years)
- Capital charge on mortgage financing
- Priority sector lending guidelines



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



# Malaysian Primary Mortgage Market



## Mortgage Originators in Malaysia consists of:

### 1 Private Sector

- Commercial Banks
- Malaysia Building Society Berhad (MBSB)
- Other Housing Credit Institutions

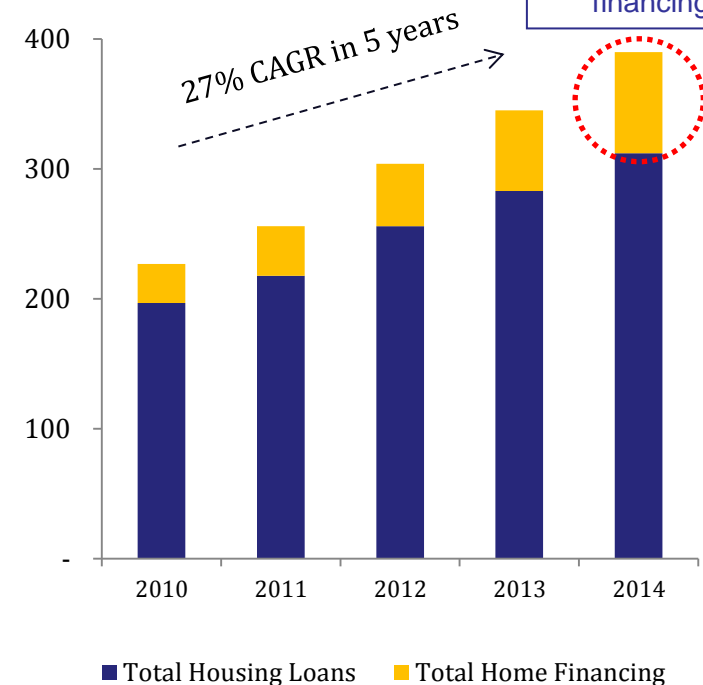
### 2 Public Sector

- Housing Loan Division, Treasury Malaysia

- As at 2014, there are 27 Commercial Banks and 16 Islamic Banks in Malaysia
- Banking Institutions contributed 85% of housing loans/financing from total housing loans
- Average growth in Islamic home financing is 27% in 5 years from 2010

## Market Share of Islamic Home Financing

RM Billion





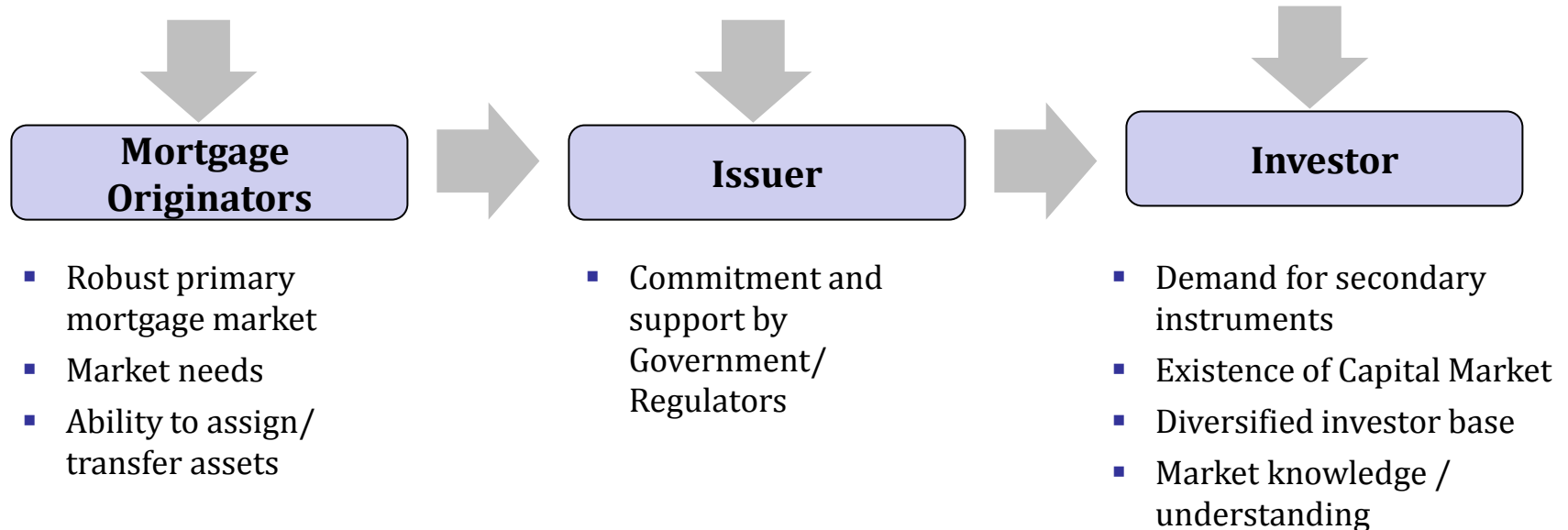
# Development of Secondary Mortgage Market: Cagamas Berhad

## The move to a Secondary Market – What is Required?

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

### Regulators

- Clear regulatory framework
- Clear legal, tax and accounting framework
- Rating framework
- Corporate governance and oversight structure
- Incentives

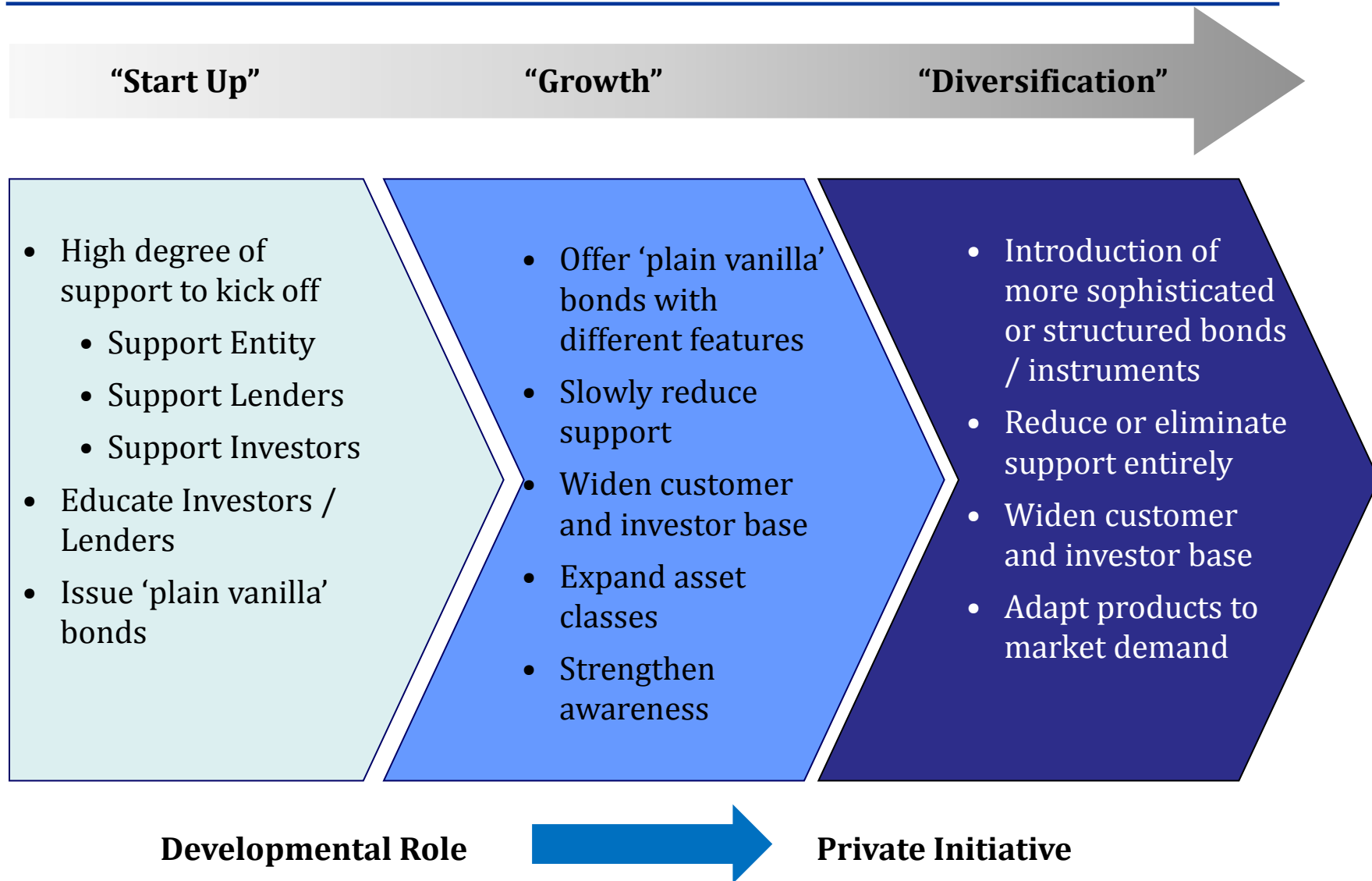


## The move to a Secondary Market – How to do it?

- 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 – Phase Approach

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## Establishment of Cagamas Berhad

- 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 home ownership and growth of the secondary mortgage market in Malaysia
- Cagamas issues bonds/sukuk 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' bonds/sukuk continue to be assigned the highest ratings of AAA by RAM Rating Services Berhad and Malaysian Rating Corporation Berhad, denoting its strong credit quality.

*Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA)*

- Subject to certain provisions of FSA and IFSA

*Real Time Electronic Transfer of Funds and Securities (RENTAS)*

Member of RENTAS

- Subject to RENTAS trading rules

Bank Negara Malaysia

*Capital Markets and Services Act 2007 (CMSA)*

Registered Persons status under the CMSA

Securities Commission

*Electronic Trading Platform (ETP)*

Cagamas' bonds are tradable on the ETP and are subject to the trading rules of the ETP and Bursa Malaysia

Bursa Malaysia

*Companies Act 1965*

Incorporated under the Companies Act and are subject to provision of the Act

Others



# Regulatory Treatment

Incentives given by the Central Bank of Malaysia in Cagamas' early years of operations

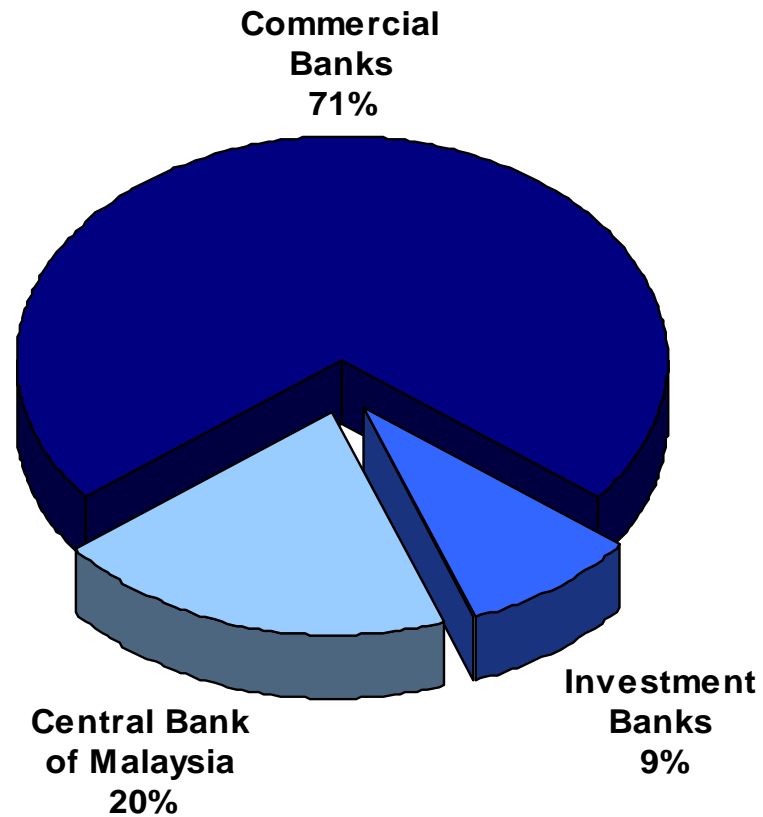
|   | Regulatory Treatment for Cagamas debt securities issued before 4 September 2004 | Revised Regulatory Treatment for Cagamas debt securities issued after 4 September 2004 |
|---|---|--|
| Risk weight under the Risk Weighted Capital Ratio framework | 10%   | 20%  |
| Liquefiable assets status under the liquidity framework     | Class-1 liquefiable   | Class-2 liquefiable  |
| Yield slippage under the liquidity framework                | 4%  | 6%   |
| Single Customers Credit Limit (SCCL)                        | Exempted from SCCL  | Subject to SCCL of 25% of the total capital funds                                      |
| Mode of primary issuance                                    | Through Principal Dealers' network  | Not through Principal Dealers' network   |
| Holdings by insurance companies                             | Low risk asset  | Credit facilities  |

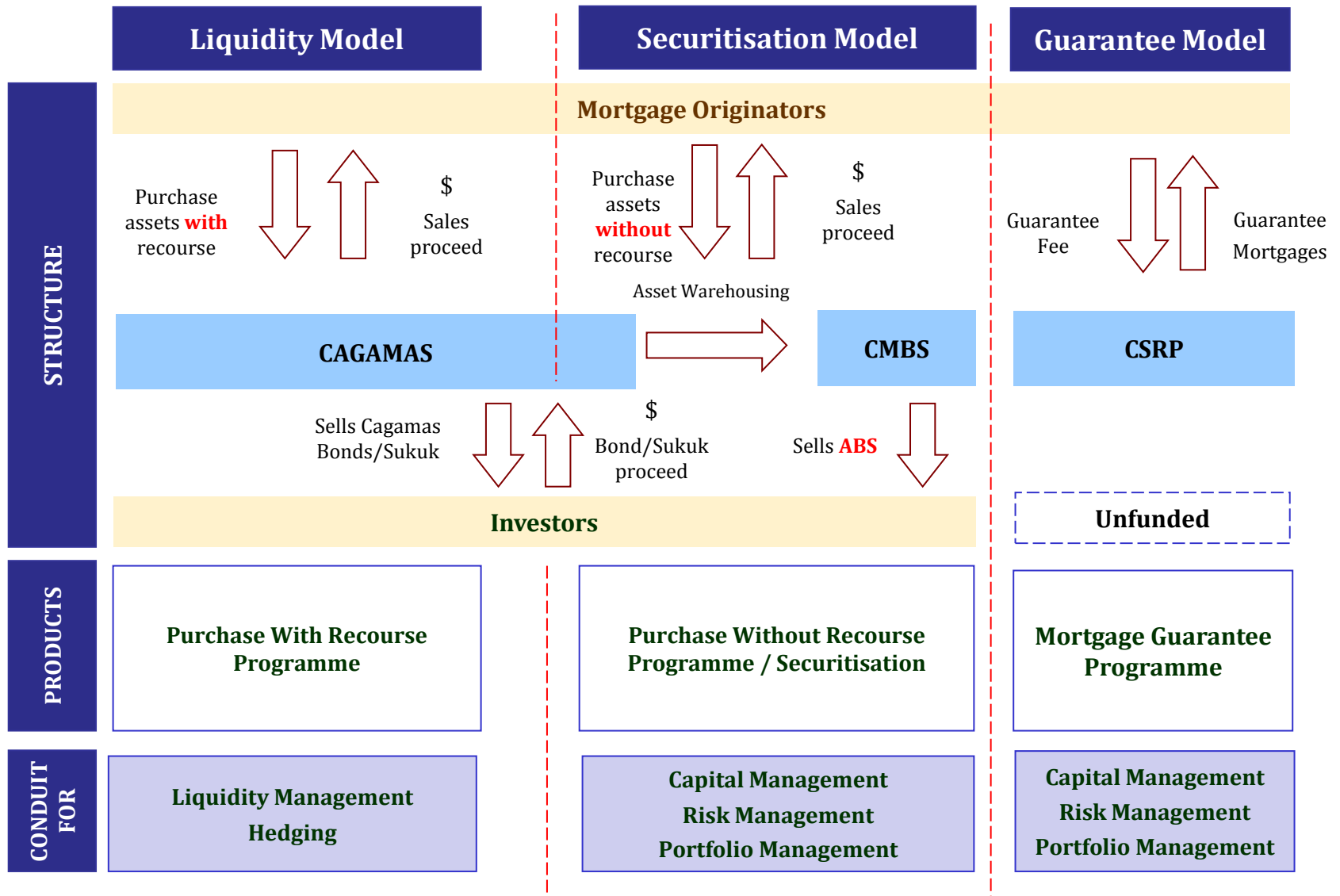
As at to date, Cagamas bonds have been assigned AAA by rating agencies in Malaysia – Rating Agency Malaysia (RAM) and Malaysia Rating Corporation (MARC) with NIL default rate.

| Key Financials<br>(Cagamas Berhad Group) | As at Dec 2014                          |
|--|---|
| Profit before tax                        | RM335.8 million (equiv USD96.0 million) |
| Asset size                               | RM29.5 billion (equiv USD8.4 billion)   |
| Shareholders' funds                      | RM2.8 billion (equiv USD0.8 billion)    |

| Issuances<br>(Cagamas Holdings Group)               | As at March 2015  |
|---|---|
| Total Issuances                                     | <b>RM282.8 billion</b> (equiv USD76.4 billion)<br>Outstanding : RM31 billion (equiv USD8.4 billion)   |
| Conventional bond<br>(33% of AAA Outstanding)       | <b>RM229.8 billion</b> (equiv USD62.0 billion)<br>Outstanding : RM10.7 billion (equiv USD2.9 billion) |
| Sukuk<br>(13% of AAA Outstanding)                   | <b>RM39.9 billion</b> (equiv USD10.7 billion)<br>Outstanding : RM12.4 billion (equiv USD3.3 billion)  |
| Asset Backed Securities<br>(72% of AAA outstanding) | <b>RM10.2 billion</b> (equiv USD2.8 billion)<br>Outstanding : RM5.0 billion (equiv USD1.4 billion)    |
| Multicurrency Term Notes<br>(EMTN)                  | CNH1.5 billion (RM780 million)<br>HKD1.0 billion (RM422 million)<br>USD500 million (RM1,725 million)  |

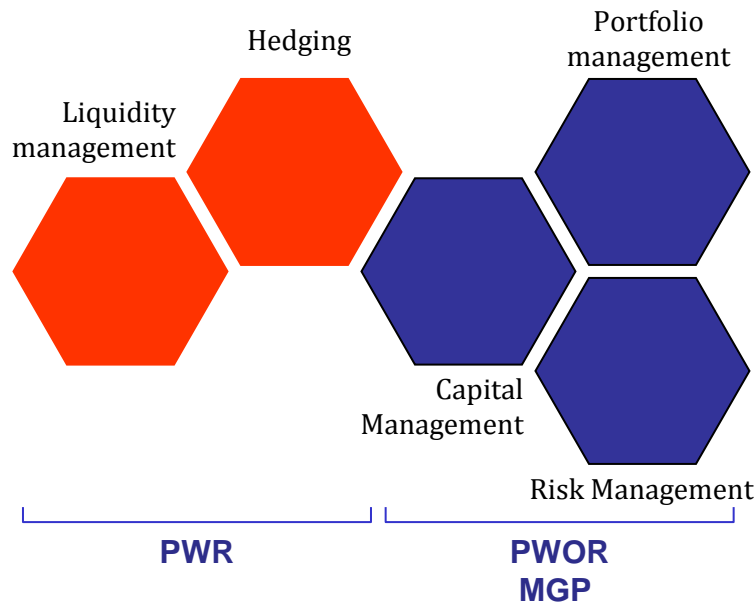
**Shareholding Structure as at  
31 December 2014**





# Business Model /cont..

- Cagamas offers the following tools to the financial institutions:-



- Cagamas purchases both **conventional** and **Islamic** loans/financing and fund the purchases through the issuance of bonds/sukuk.
- 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 Purchase Facilities
- Islamic House Financing Purchase Facility
- Industrial Property Loans Purchase Facility
- Hire Purchase and Leasing Debts Purchase Facility
- Islamic Hire Purchase Facility
- Credit Card Receivables
- Islamic Personal Financing
- Al Rahnu Financing
- Credit Card Receivables

### Purchase without Recourse (PWOR)

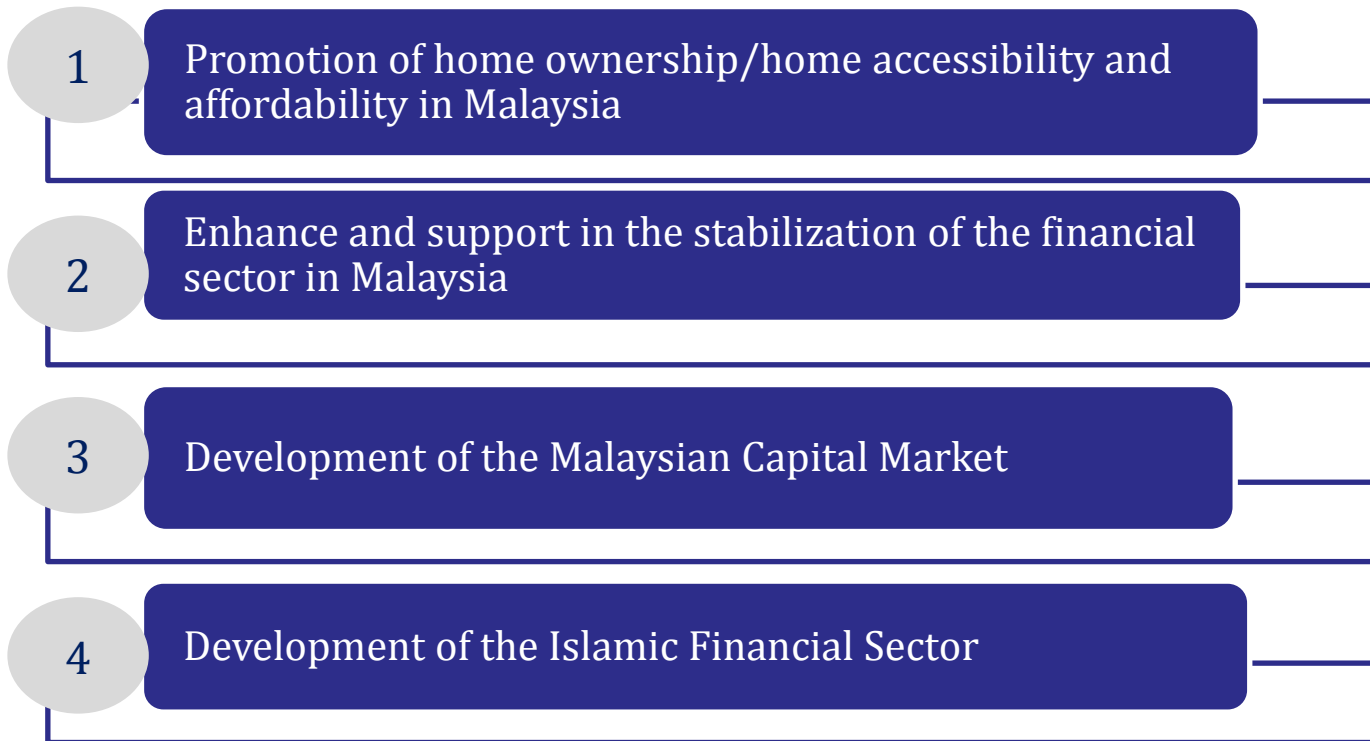
- Conventional Housing Loans
- Islamic House Financing

### Mortgage Guarantee Programme (MGP)

- Conventional Housing Loans
- Islamic House Financing

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

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



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## Promotion of home ownership and affordability in Malaysia

- Provide liquidity and hedging to mortgage financier – PWR programme
- Provide match funding – multi-tenor Private Debt Securities(PDS)
- Provide lower cost of funds – AAA funding and high demand of Cagamas Securities.
- Link the mortgage market to the capital market – development of the MultiCurrency Issuances (EMTN) and Residential Mortgage Backed Securities (RMBS) for conventional and Islamic
- Develop innovative structures for mortgage financier – mortgage guarantee under the My First Home Scheme (SRP) and Youth Housing Scheme (YHS) to promote home ownership among young working adults

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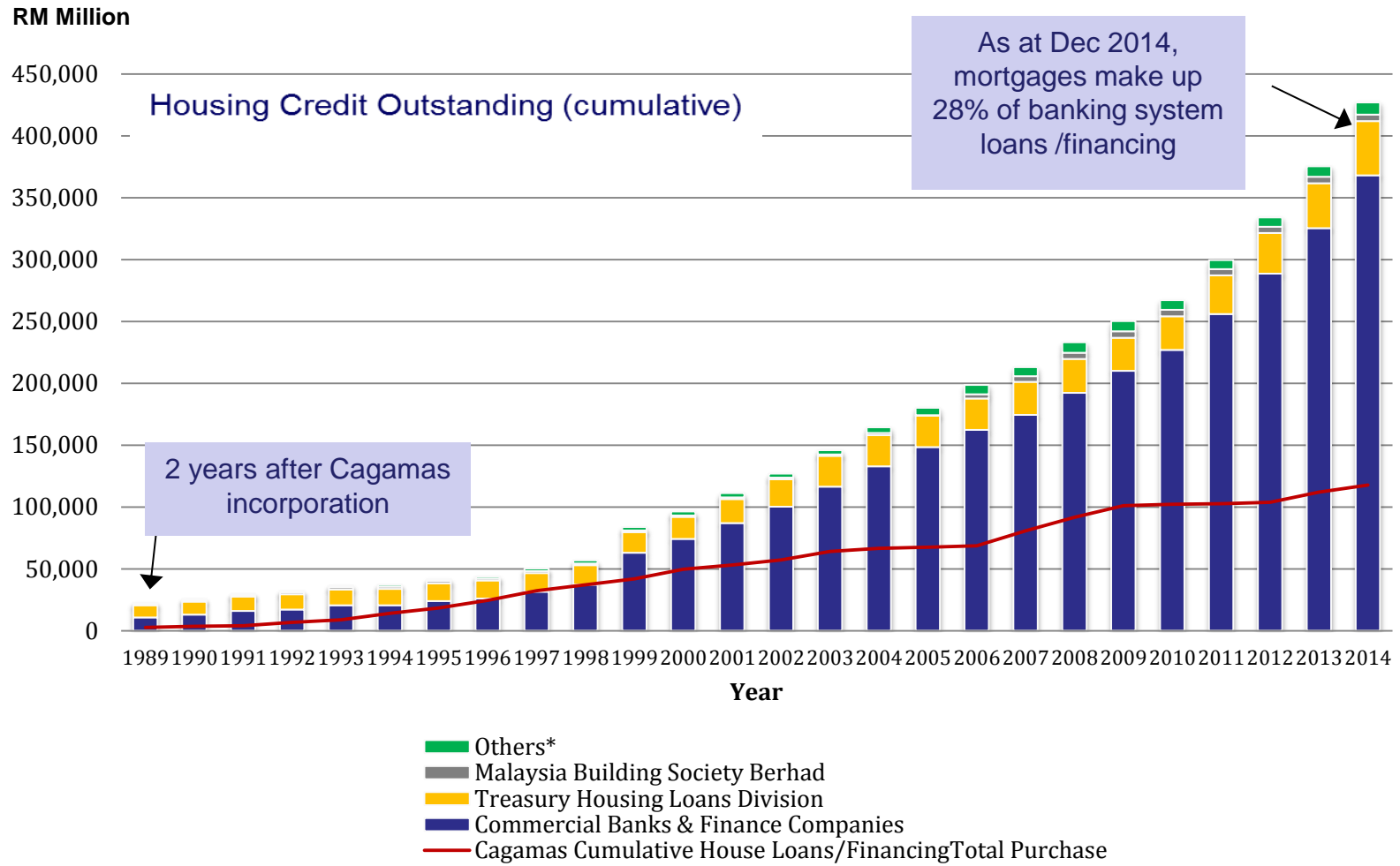
## Promotion of home ownership/home accessibility and affordability in Malaysia.. cont

- 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)



# Roles of Cagamas

## Promotion of home financing in Malaysia



Source: BNM Annual Report, various years

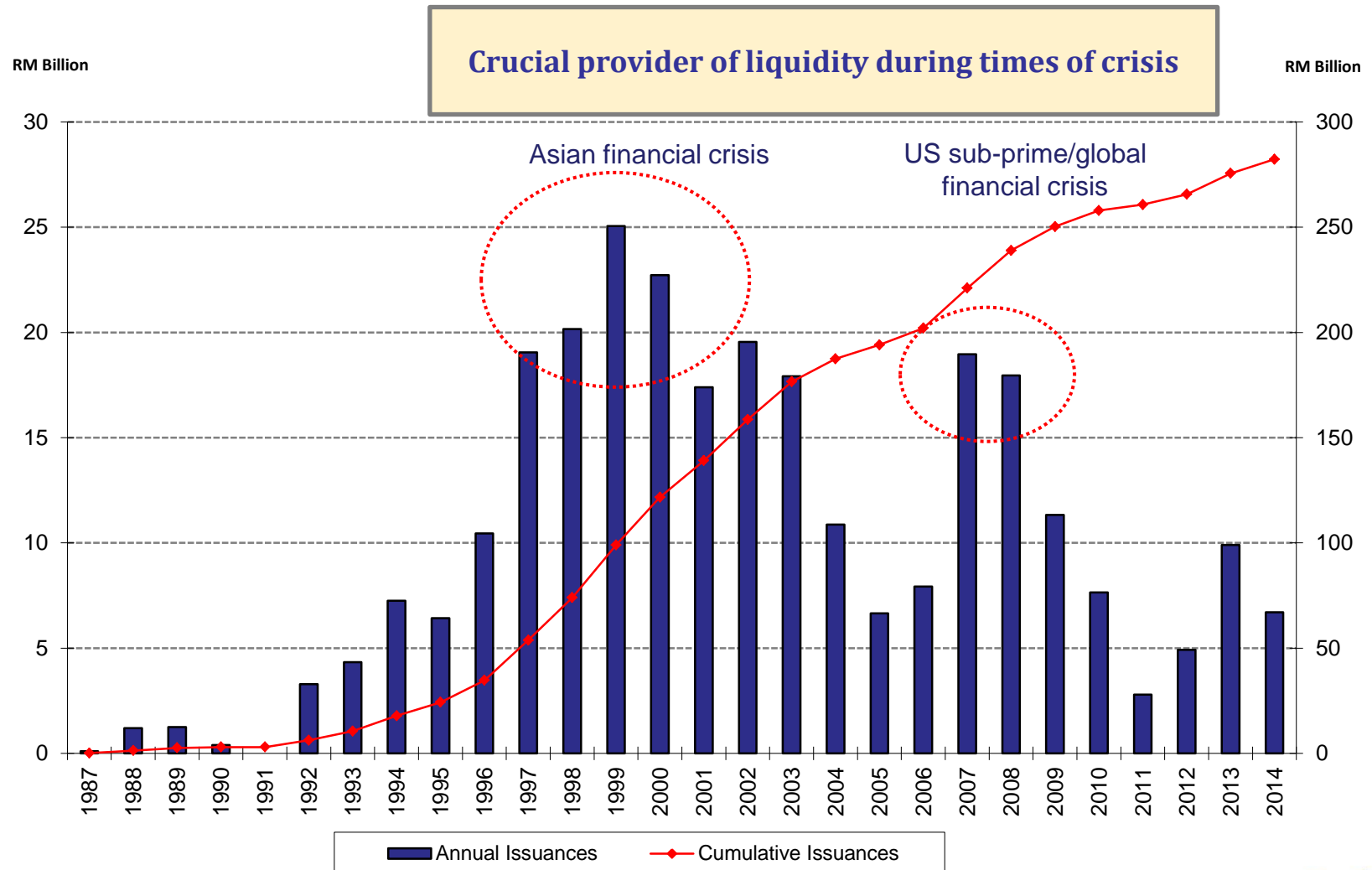
\* Others inclusive of Bank Kerjasama Rakyat Malaysia Berhad, Borneo Housing Mortgage Finance Berhad, Bank Simpanan Nasional and Sabah Credit Corporation

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

- Provide credit and portfolio risk management solutions
- Provide capital management solutions
- Conduit to remove systemic risk in the financial sector due to Cagamas' role as a liquidity provider
- Conduit for best practices & setting up of standards – development of conforming financing standards

Provided liquidity of about **RM282.8 billion\*** to the financial sector to date



\* As at Dec 2014

## 3

## Development of the Malaysian Capital Market

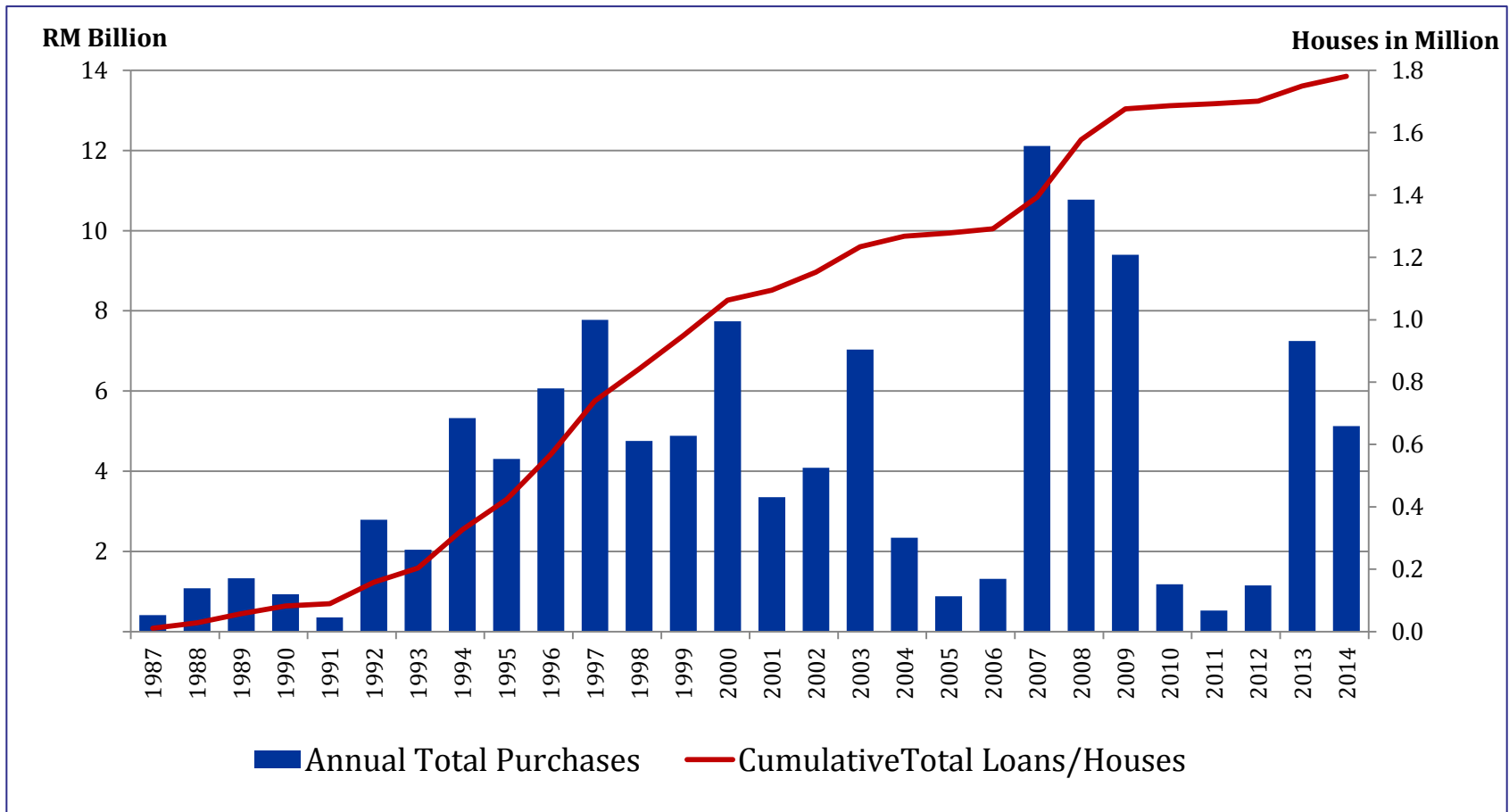
- Enhance the quality of capital securities market – structuring of high investment grade instruments
  - Approx. 22%\* of AAA Malaysian Private Debt Securities (PDS) market
  - Approx. 71%\* of AAA Malaysian Asset Backed Securities (ABS) market
- Contribute to the depth and breadth of capital market eg. establishment of USD2.5 billion Multicurrency Medium Term Note programme in 2014
- Significant player in the capital securities market
  - 1<sup>st</sup> RMBS issuer in Malaysia (April 2004)
  - 2nd largest issuer after the Government of Malaysia
- Providing an alternative form of investment in quality private capital securities
  - Large volume of highly-rated multi-tenor Cagamas capital securities has given investors new instruments for investing their surplus funds

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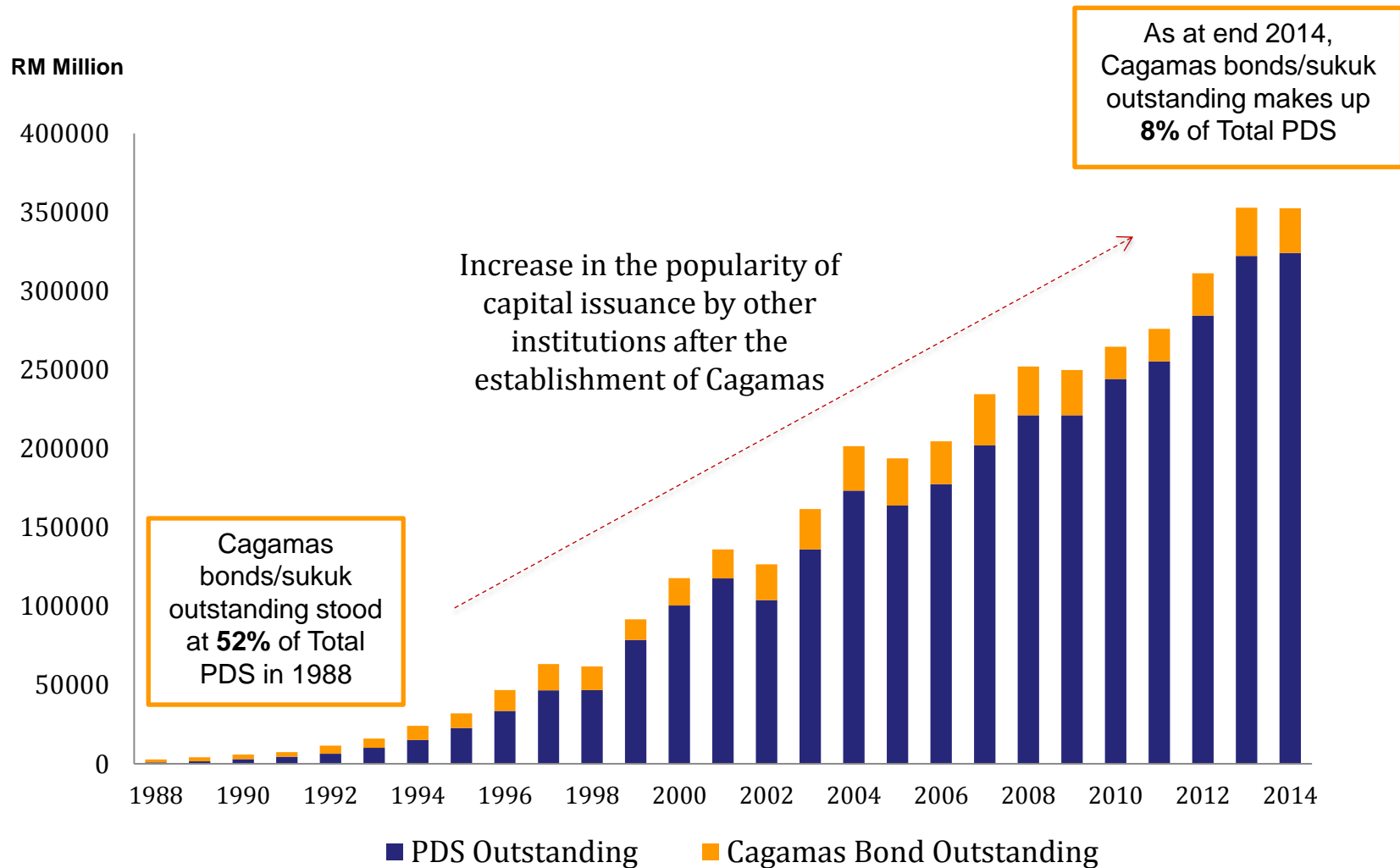
*\*Percentage as at 31 Dec 2014*

# Roles of Cagamas

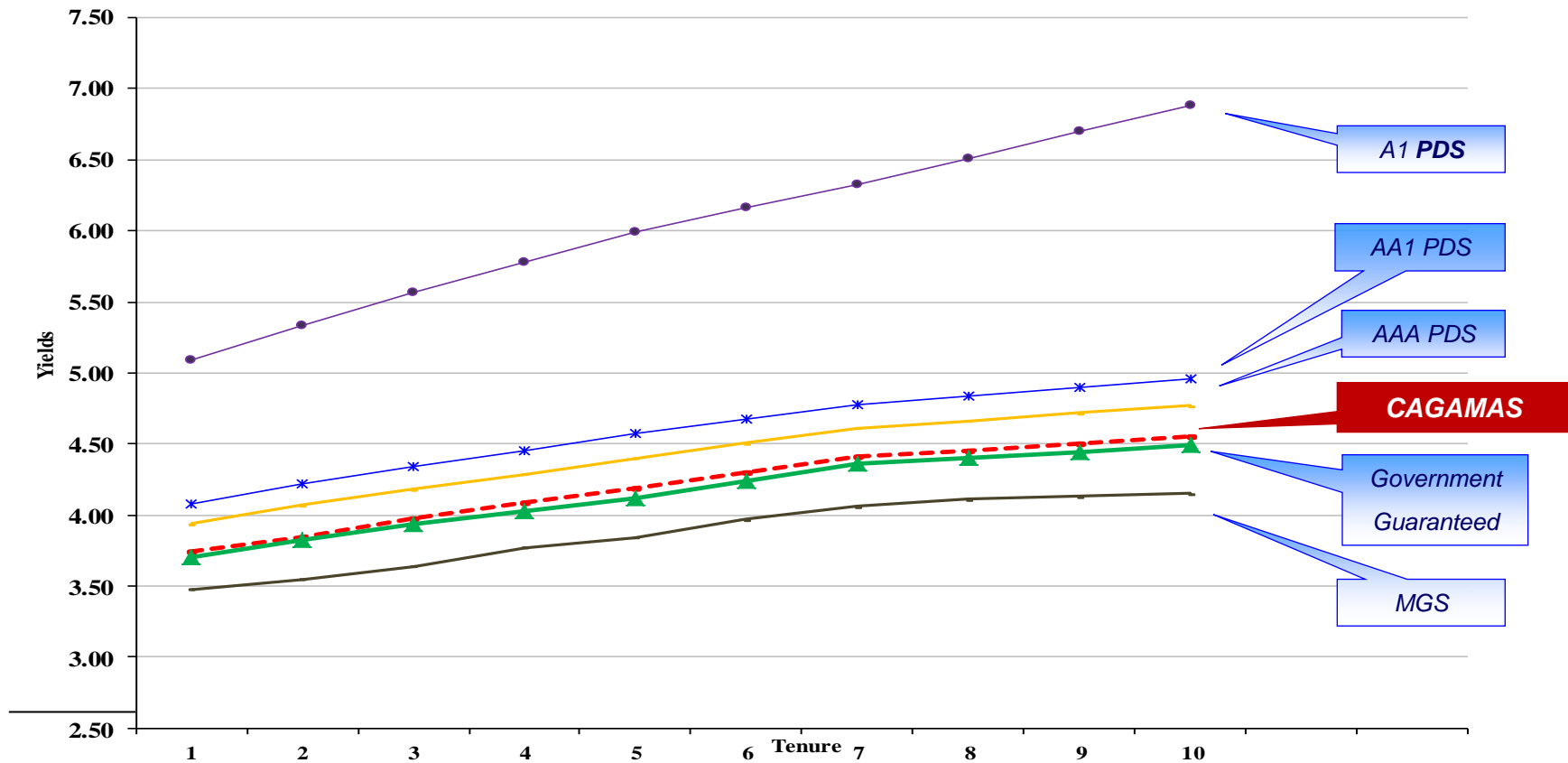
Cagamas has **cumulatively refinanced housing loans** in the secondary market equivalent to **RM116 billion equiv to USD31.8 billion** or approx. **1.8 million houses**



## Cagamas' share in PDS Market



Cagamas bond yield comparison against Malaysia Government Securities, Government Guaranteed, AAA, AA1 and A1 PDS\*



\*As at 31 Dec 2014

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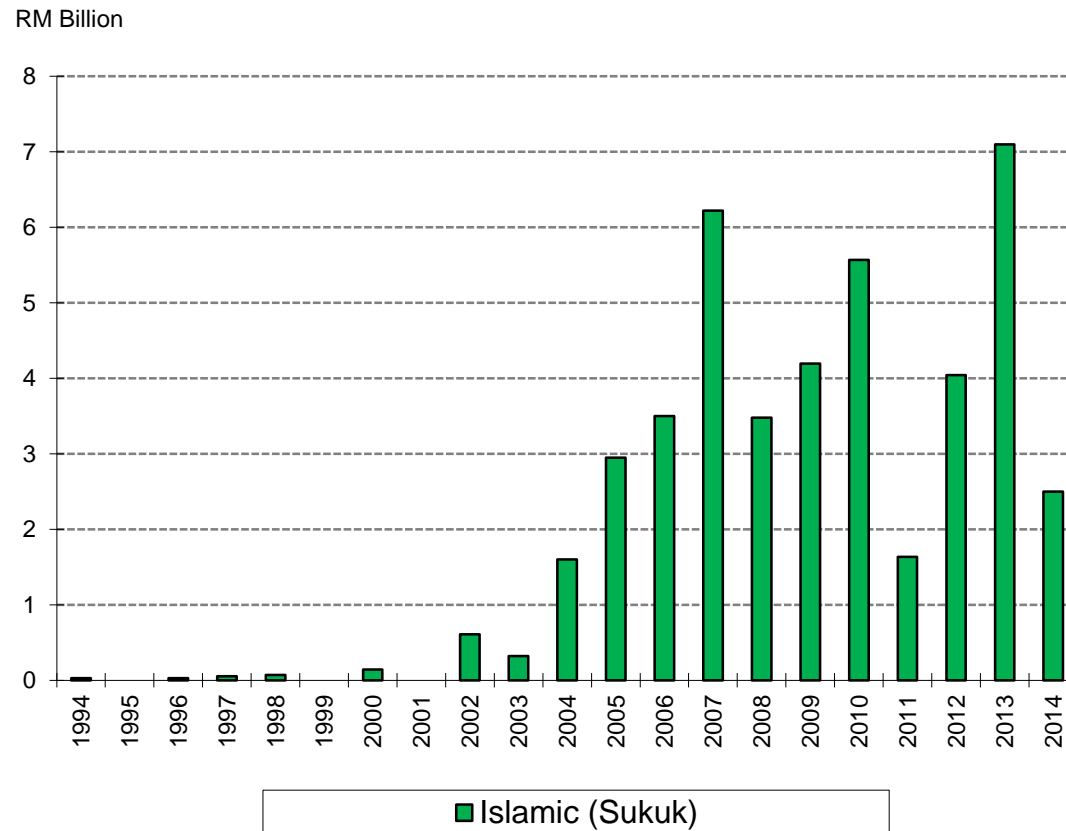
## Development of the Islamic Financial Sector

- Enhance the quality of Islamic capital market – structuring of high investment grade sukuk
- Contribute to the depth and breadth of Islamic capital market eg. establishment of USD2.5 billion Multicurrency Sukuk Issuance programme in 2014
- Support the promotion of Malaysia as an International Islamic Financial Centre
- Significant player in the Malaysian Islamic securities market
  - Approx. 13% of AAA Malaysian Sukuk market



# Cagamas Sukuk Issuances

Cagamas has issued **RM39.9 billion\*** (13% of outstanding **AAA**) of Sukuk since inception and the percentage is growing from year to year.



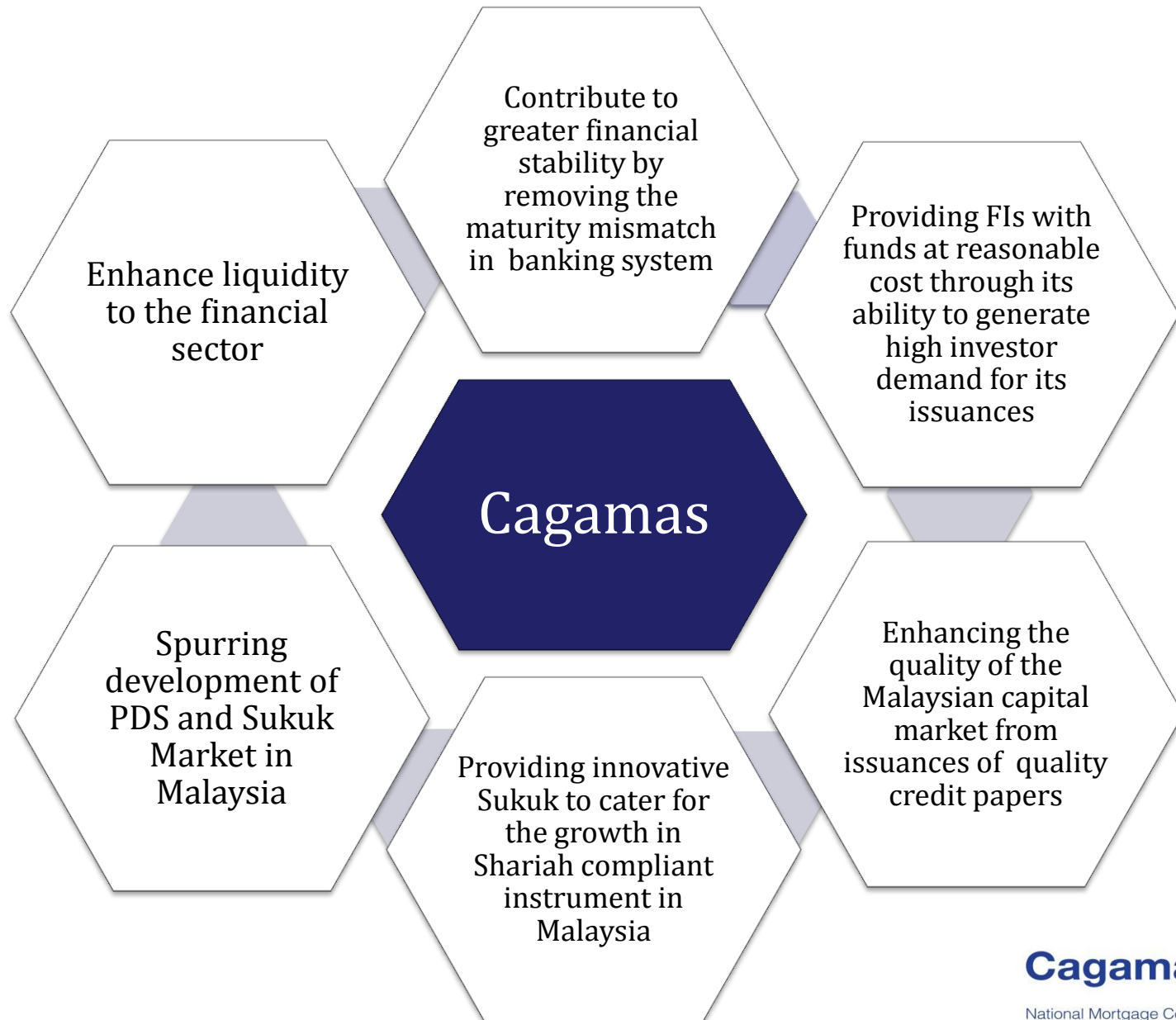
| Year | Sukuk Issuances (RM Million) |
|------|------------------------------|
| 2000 | 144                          |
| 2002 | 610                          |
| 2003 | 320                          |
| 2004 | 1,600                        |
| 2005 | 2,950                        |
| 2006 | 3,500                        |
| 2007 | 6,220                        |
| 2008 | 3,480                        |
| 2009 | 4,195                        |
| 2010 | 5,570                        |
| 2011 | 1,635                        |
| 2012 | 4,040                        |
| 2013 | 7,100                        |
| 2014 | 2,500                        |

\*Percentage as at 31<sup>st</sup> Dec 2014



# Impact of Setting up of Cagamas

# Impact of Setting up Cagamas





# Challenges

## Challenges

### Excess liquidity in the banking system

- Overall liquidity in the banking system remained ample. No urgency for financial institutions (FIs) to sell assets to Cagamas

### Stable interest rate

- A lower interest rate environment will reduce the FI's need to hedge their interest rates

### Capital adequacy for FIs remains healthy

- Healthy industry capital ratio- less need to raise or free up capital by FIs

### Lower loan growth by the banking sector

- A lower growth rate will further motivate FIs to maintain the loans on their balance sheet as a key performance measure

### Further downturn in economy

- This scenario may lead to high default rates in the banks

## Actions

- Target banks and development financial institutions whose loan to deposit ratios exceed the industry average
- Continue to target FIs which are rated AA or A, given Cagamas' AAA rating as an alternative for attractive funding rates.
- Continue to maintain a prudent and cautious approach in managing its credit risk
- Promoting Conforming Loan standards to facilitate purchases



# Key Success Factors

## Cagamas Key Success Factor

### Solid financial standing & shareholding

- Profitable going concern
- Strong shareholders equity of RM2.6 billion as at 31 Dec'14 (equiv USD0.74 billion\*)
- High RWCR of over 20%
- Strong shareholders in the form of CBA and FIs

### Strong management team

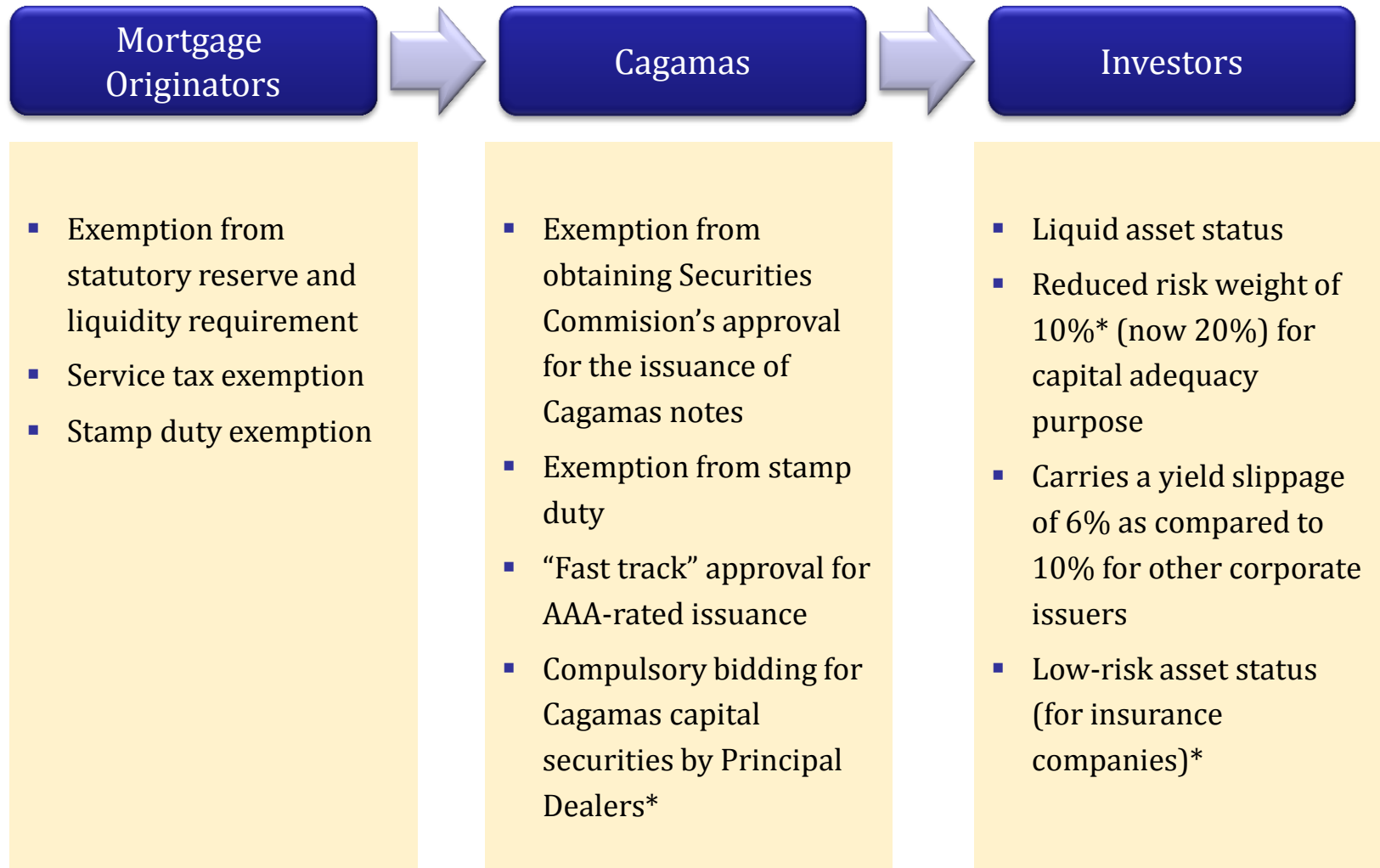
- Experienced and dedicated professional team
- Result oriented and performance driven culture
- Robust risk management and corporate governance structure

### Support given by regulators

Implicit and explicit support given:-

- Implicit: Through Central Bank of Malaysia's shareholding in Cagamas
- Explicit: Through incentives by government and regulators at the initial stage

## Supporting Measures



\* No longer applicable post 4 September 2004



Cagamas is continuously evolving with the changing financial landscape

- a catalyst for the Government's and the Central Bank of Malaysia's initiatives for the economy and financial sector.

Cagamas has become well known locally and internationally

- Development of sustainable secondary mortgage market;
- Spearheading the development of private debt securities market;
- Establishing foreign currency bond and sukuk programmes; and
- Pioneering various Islamic finance fronts.

Cagamas has become a source of reference and a model for many developing countries and recognised by international agencies

- World Bank;
- Asian Development Bank;
- International Finance Corporation

| Transaction   |   | Awards Won   |
|---|---|--|
| <ul style="list-style-type: none"> <li>Cagamas Global RMB 1.5 billion Tiger Emas bonds</li> </ul>                     |     | <ul style="list-style-type: none"> <li>Best Renminbi (Offshore) Offering for 2014</li> <li>Best Foreign Currency Deal of the Year 2014</li> </ul>  |
| <ul style="list-style-type: none"> <li>Cagamas MYR 3.8 billion multi-tenor Sukuk</li> </ul>                           |    | <ul style="list-style-type: none"> <li>Best Deal-Highly Commended (Malaysia)</li> </ul>  |
| <ul style="list-style-type: none"> <li>Cagamas Berhad</li> </ul>  |    | <ul style="list-style-type: none"> <li>Most Outstanding Securitisation House</li> </ul>  |
| <ul style="list-style-type: none"> <li>Cagamas MYR500 million multi-tenor Sukuk Wakala Bil Istithmar</li> </ul>       |    | <ul style="list-style-type: none"> <li>Highly Commended / Most Innovative Deal</li> </ul>  |
| <ul style="list-style-type: none"> <li>Cagamas MYR1.0 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm)</li> </ul> |    | <ul style="list-style-type: none"> <li>Islamic Deal of the Year</li> <li>Best Islamic Deal, Malaysia</li> <li>Country Deal of the Year</li> <li>Malaysia Innovation of the Year</li> </ul> |
| <ul style="list-style-type: none"> <li>Cagamas MYR230 million Variable Rate Sukuk Commodity Murabahah</li> </ul>      |   | <ul style="list-style-type: none"> <li>Tawarruq Deal of the Year</li> </ul>  |
| <ul style="list-style-type: none"> <li>Cagamas MYR915 million Sukuk Commodity Murabahah</li> </ul>                    |   | <ul style="list-style-type: none"> <li>Tawarruq Deal of the Year</li> <li>Most Innovative Deal of the Year</li> </ul>  |



**The End**

## Strategies and Key Objectives

- ✓ To be acknowledged as a leader in the provision of financial support in Malaysia's efforts to meet the housing needs of Malaysians
- ✓ To be the pace-setter for the development of the bond and sukuk market within Malaysia
- ✓ To attain recognition on a national and international level for its work as a pioneer with a successful business model for others wishing to establish a successful secondary mortgage liquidity facility and mortgage-backed securitisation offerings

### How Cagamas meets its Objectives

- Providing innovative facilities at a competitive cost to primary home lenders
- Widening and deepening the scope of securitisation with innovative instruments
- Nurturing and maintaining a competent workforce of the highest integrity and professionalism
- Harnessing technology to enhance productivity and efficiency
- Valuing staff for their commitment and loyalty
- Corporate culture: inculcating a caring and responsible corporate culture

### Future Plans

- Continuing to help Malaysians gain access to competitive house financing
- Developing risk and capital management solutions to assist financial institutions especially in light of Basel III
- Enhancing product offering participation in Development Financial Institutions to further spur the growth of SMEs
- Providing competitively priced funding through diversification of funding sources and widening of investor base
- Exploring opportunities to replicate Cagamas' business model in SE Asia to complement Malaysian financial institutions expanding abroad

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