

Cagamas Berhad

National Mortgage Corporation of Malaysia

Presentation to the Indonesia International Conference on Islamic Finance

Development of Securitisation in Malaysia - Cagamas Experience

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4 November 2014



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Securitisation in Malaysia Defined



Securitisation: Definition *

- 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 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

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



About Cagamas Berhad



About 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 RM277.1 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

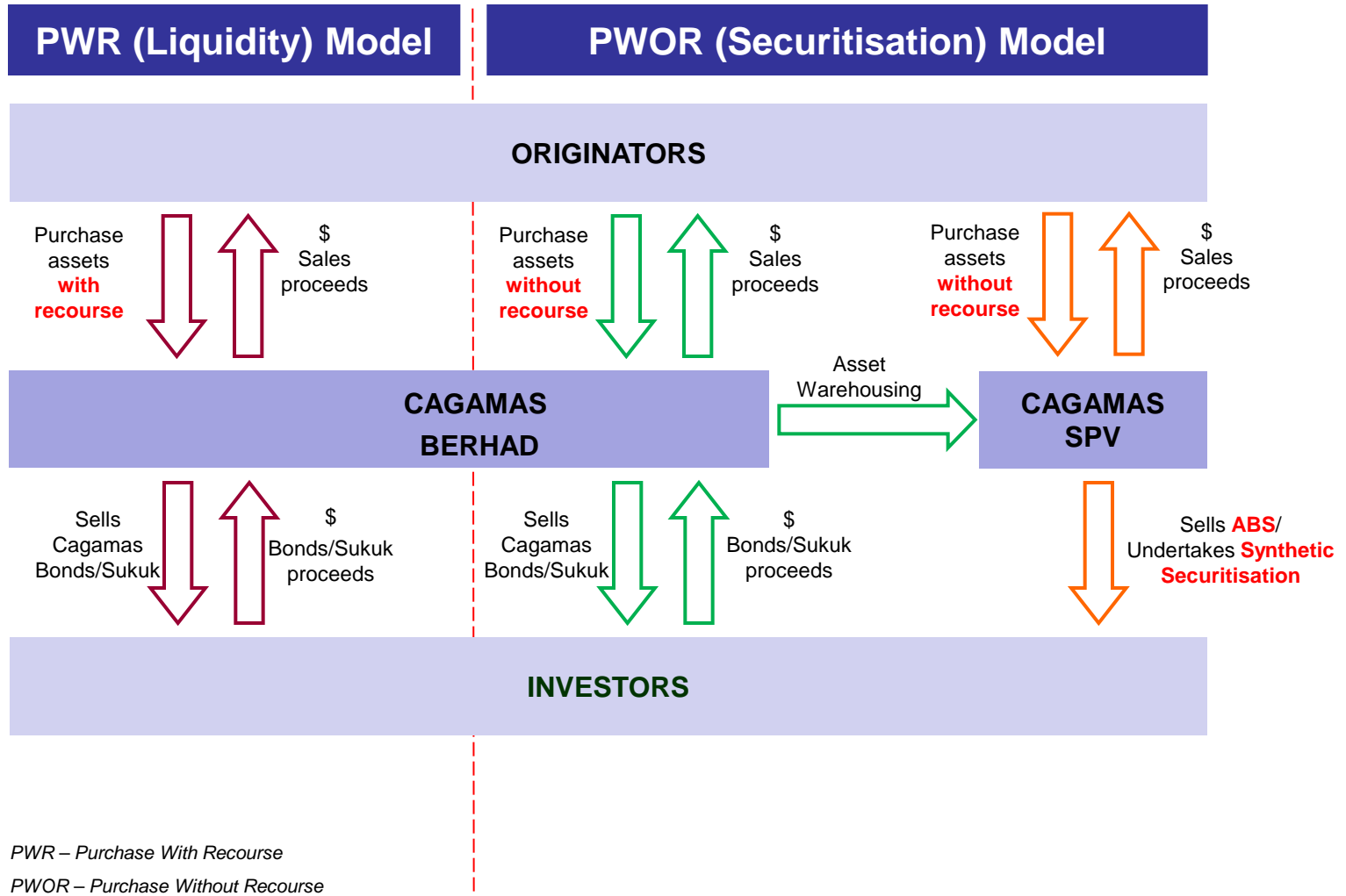
- ✓ Assigned local and foreign currency long-term issuer ratings of A3 by Moody's Investors Service which are on par with Malaysia's sovereign ratings
- ✓ An alternative funding source and allows for widening of investor base to include foreign investors

Innovative and Award Winning Transactions

- ✓ 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



Cagamas Business Model





Securitisation Undertaken by Cagamas MBS: Sukuk Musyarakah RMBS



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

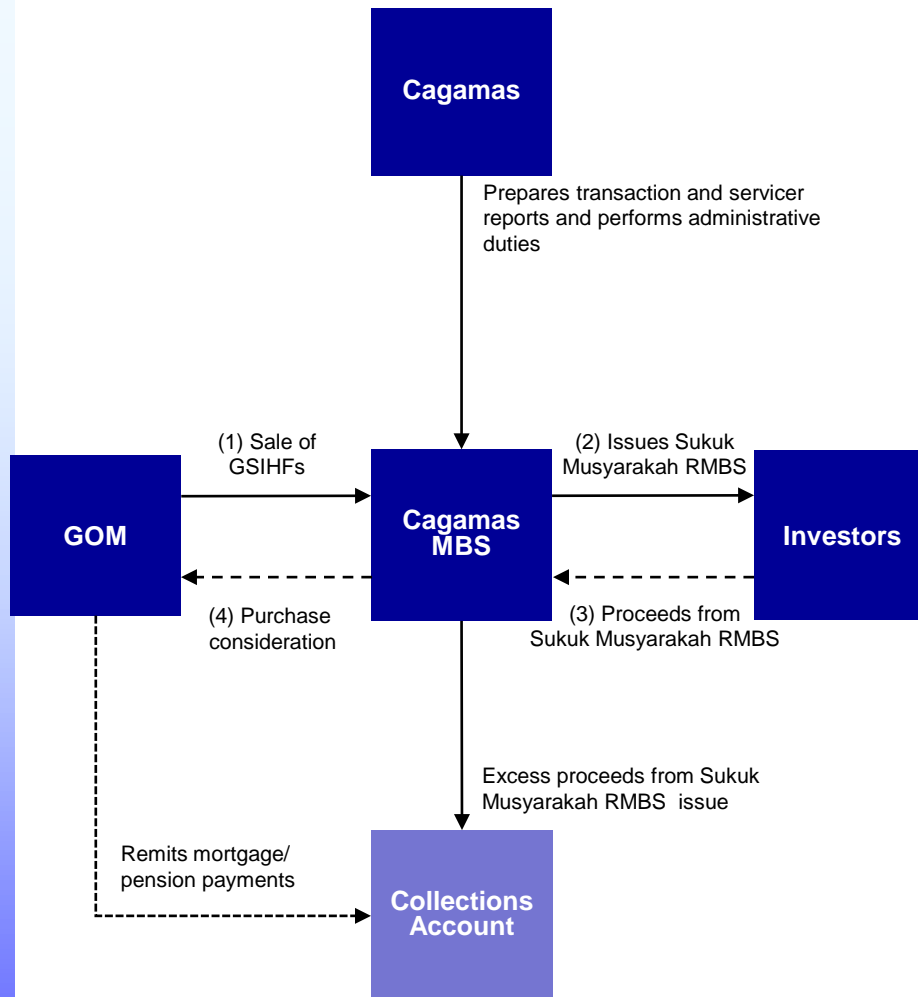
- Objectives of securitisation programme
 - ✓ Increase the depth and breadth of the domestic capital market
 - ✓ Promote asset-backed securities (ABS) as a new tool for raising funds from the capital market
 - ✓ Create a pricing benchmark for Malaysia's ABS market

- 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** (Cagamas MBS)
 - ✓ Originator and Servicer: **Housing Loans Division of Ministry of Finance**
 - ✓ Administrator and Transaction Administrator: **Cagamas Berhad**



RM2.05 billion 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 Description

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

GOM – Government of Malaysia



RM2.05 billion Sukuk Musyarakah RMBS: Summary Terms

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

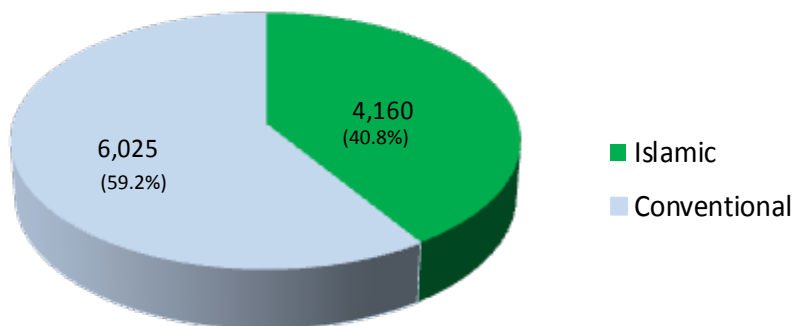
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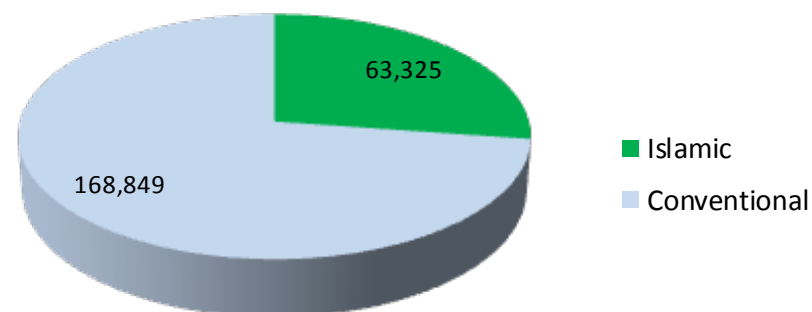
Cagamas MBS: Issuances and Mortgages Purchased

- From 2004 – 2007, Cagamas MBS issued RM4.2 billion of Sukuk Musyarakah RMBS relating to 63,325 mortgage obligors

ISSUANCE SIZE (RM million)



NUMBER OF MORTGAGE OBLIGORS



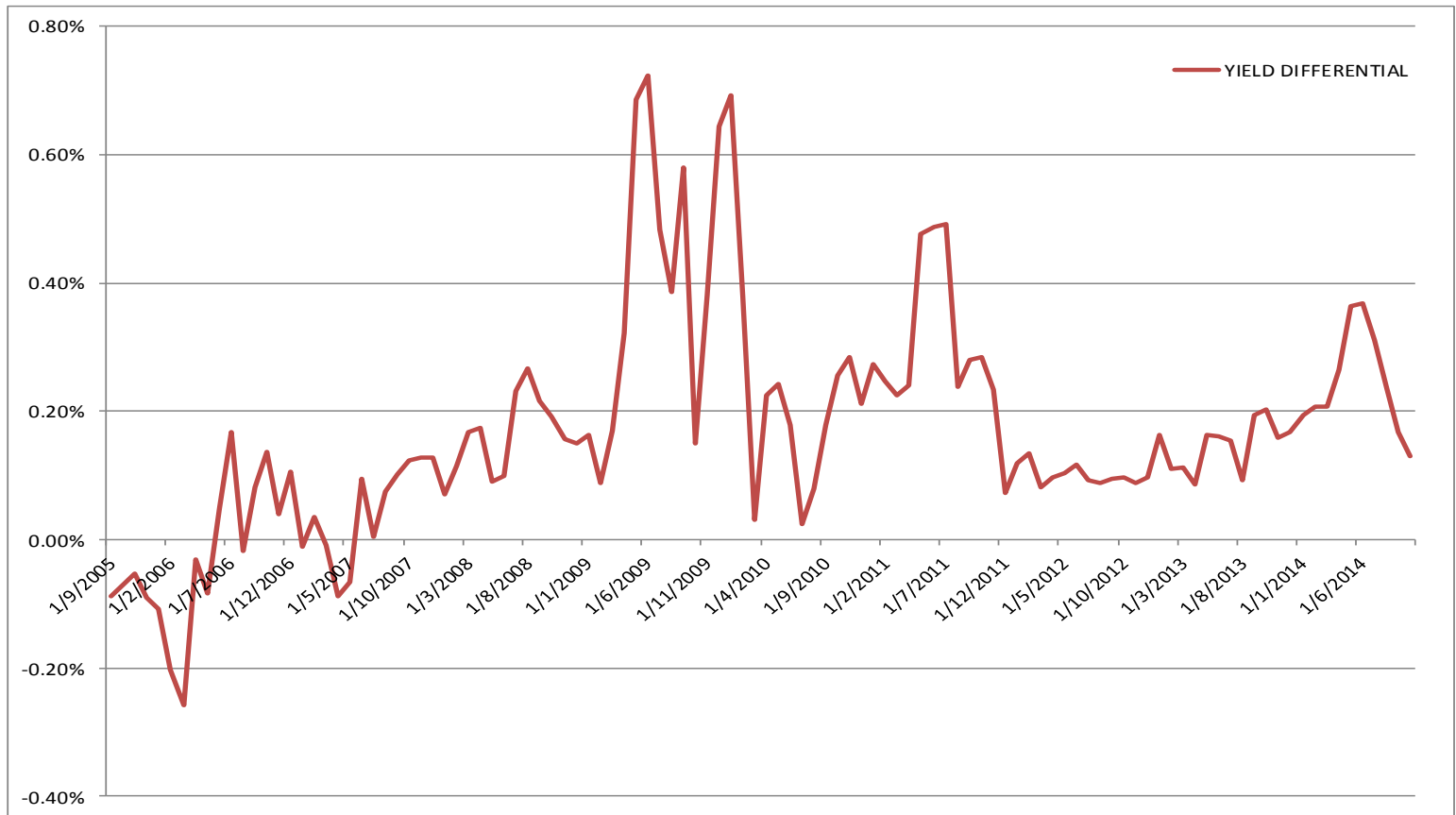


Impact of Subprime Crisis on Securitisation



3-Year Cagamas Bonds vs Cagamas RMBS

- Yield of Cagamas RMBS is higher than Cagamas bonds since the subprime crisis and this has dampened the Malaysian securitisation market

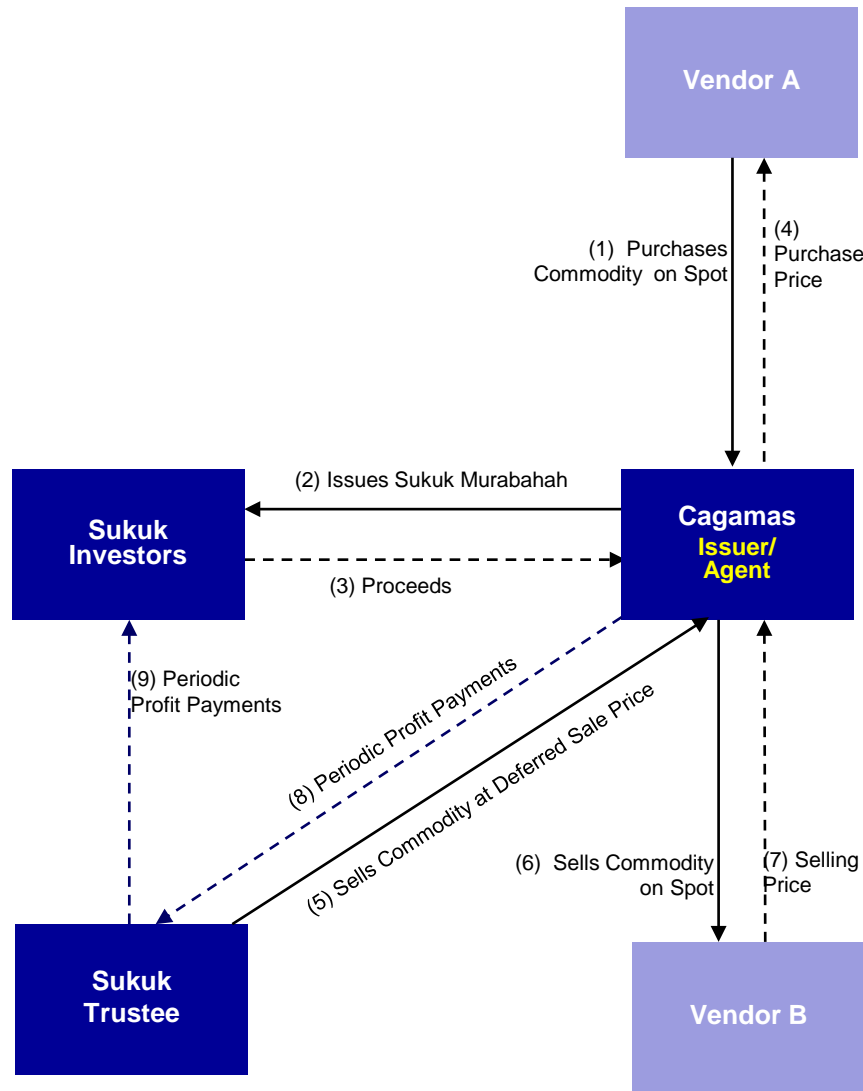




Securitisation Undertaken by Cagamas Berhad: Sukuk Murabahah



RM2.015 billion Sukuk Murabahah: Structure



Creating the Sukuk	<ul style="list-style-type: none"> Investors contribute capital for the purpose of entering into commodity trading transaction Commodity is used by the Issuer as consideration in exchange for an Islamic home financing portfolio
Profit Distribution	<ul style="list-style-type: none"> Profit arising from the commodity trading transaction is distributed to the Sukuk holders on semi-annual basis
Role of the Issuer	<ul style="list-style-type: none"> Issuer acts as trustee and agent of Sukuk holders for the Murabahah venture
The Venture	<ul style="list-style-type: none"> Purchase of Islamic home financing portfolio
The Sukuk	<ul style="list-style-type: none"> Evidence proportionate beneficial interest in the Murabahah venture

Transaction Description

- Cagamas, as Agent (Wakeel) of Sukuk investors, purchases commodity on a spot basis from Vendor A at Purchase Price
- Cagamas ("Issuer") issues Sukuk to investors to evidence their ownership of the commodity
- & 4) Proceeds received from the Sukuk investors are used or deemed to have been used to pay the purchase price of the commodity
- Sukuk Trustee, on behalf of the Sukuk investors, sells the commodity to Cagamas at Sale Price repayable on a deferred payment basis
- Cagamas sells the commodity to Vendor B on a spot basis at Selling Price
- Proceeds received from the sale of commodity are used to fund Cagamas' Islamic operations
- & 9) Cagamas makes periodic profit distribution (e.g. semi annual basis) to the Sukuk Trustee on account of its obligation to pay the Deferred Sale Price. Upon maturity of the transaction, Cagamas will pay the Sukuk Trustee the principal to redeem the Sukuk



RM2.015 billion Sukuk Murabahah: Summary Terms

Issuer

- Cagamas Berhad

Issue

- RM2.015 billion Sukuk Murabahah issue comprising the following:

Tenure (Years)	Issue Amount (RM million)	Maturity Date	Profit Rate (%)	Spread Over MGS (basis points)
1	320	10-Aug-2009	4.05	21
2	95	06-Aug-2010	4.25	30
3	105	08-Aug-2011	4.60	57
5	215	08-Aug-2013	5.00	79
7	215	07-Aug-2015	5.30	86
10	155	08-Aug-2018	5.80	90
12	235	07-Aug-2020	6.00	105
15	305	08-Aug-2023	6.35	134
20	370	08-Aug-2028	6.50	138

Rating

- AAA by MARC and RAM

Profit payment

- Semi-annually

Issuance Date

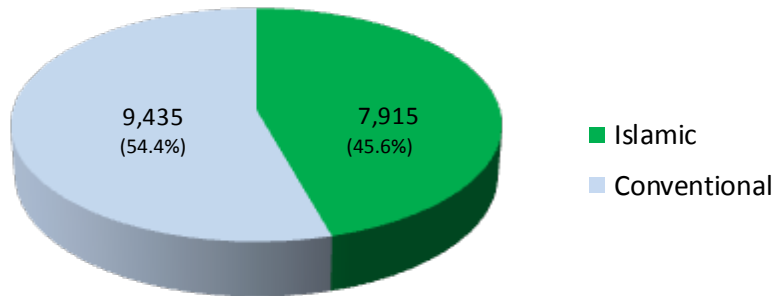
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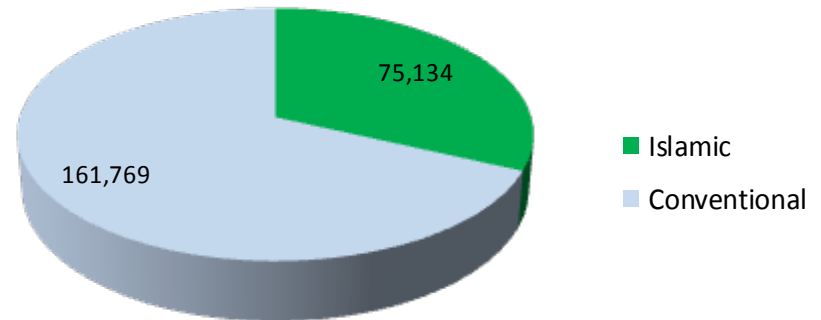
Cagamas: Issuances and Mortgages Purchased

- From 2007 to-date, Cagamas issued RM7.9 billion of Sukuk Murabahah relating to 75,134 mortgage obligors

ISSUANCE SIZE (RM million)



NUMBER OF MORTGAGE OBLIGORS





Issues and Challenges



Issues and Challenges

- **Market Environment**
 - ✓ Excess liquidity in the banking system
 - ✓ Healthy banking industry capital position
 - ✓ Lower loan/financing growth in the banking sector

- **Historical Data**
 - ✓ Lack of historical data
 - Transaction is dependent on the performance of the portfolio. However, there were issues regarding lack of historical data for valuation of the securitised pool
 - Obtaining historical data was challenging

- **System Requirements**
 - ✓ Information on loans/financings sold to Cagamas
 - Need for originator to develop sub-system to tag loans/financings sold to Cagamas
 - Need to generate the appropriate reports from originator's system



Issues and Challenges

- Accounting
 - ✓ True sale treatment
 - A true sale or not a true sale
 - If yes, can be derecognised i.e. passing over of risk, reward and control to issuer

- Taxation
 - ✓ Tax implications
 - Service tax on payment received by the servicer of assets securitised
 - Stamp duty on transaction documents relating to securitisation

- Regulatory
 - ✓ Securities Commission
 - Certain exemptions and waivers from Guidelines on ABS
 - ✓ BNM
 - Regulatory treatment for the purpose of facilitating investments



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
 - Approx. 16% of Outstanding AAA Sukuk market
 - Approx. 87% of Outstanding AAA Islamic ABS 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
 - Approx. 23% of Outstanding AAA PDS market
 - Approx. 74% of Outstanding AAA ABS market
 - ✓ 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



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Rules and Regulations for Securitisation in Malaysia

- Guidelines on the Offering of Asset-Backed Securities issued by SC (ABS Guidelines)
 - ✓ 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

- 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

- Trust Deeds Guidelines issued by SC (TD Guidelines)
 - ✓ 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

- Prudential Standards on Securitisation Transactions issued by BNM (Prudential Standards)
 - ✓ 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



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