Cagamas plans shared equity home ownership scheme aimed at M40

BY BILLY TOH

THE NATIONAL MORTGAGE CORPORATION OF MALAYSIA (CAGAMAS BHD) believes the introduction of shared equity home ownership programmes will benefit homebuyers in the middle 40% group (M40), judging by the popularity of similar schemes in developed countries such as Australia and the UK.

"Those in the M40 group with good credit standing but without sufficient savings for the required deposits are unable to buy their desired homes even if they take up 90% home financing from the banks. We believe this (shared equity home ownership) will help address the gap.

"Such schemes are essentially a partnership between the government (or relevant agencies), banks and homebuyers in those parts of the world (including Australia and UK). They allow homebuyers to buy homes without being burdened by a substantial down payment and high monthly instalment," says Cagamas president-cum-CEO Datuk Chung Chee Leong.

A shared equity scheme could provide funding of up to 20% of a property's price through equity financing while banks give out loans for the remaining 80%, depending on the borrowers' income and financial capability. Investors and homeowners share the risk and reward of the investment in the property.

According to Chung, some of the benefits include a lower upfront cost for homebuyers and an affordable monthly mortgage repayment. Apart from that, homebuyers are able to buy homes at lower prices now in view of escalating prices in the future. Hence, the scheme promotes homeownership and reduces the property overhang over the long term.

On the deadline for Cagamas to launch such a scheme, he notes that there are a lot of issues to consider. The product must generate returns to investors but if the return is excessive, it will be costly for homebuyers.

"The challenge is really the return — what is the return that we will channel to investors? It could be very costly for homebuyers with the normal expected return… There are still a lot of issues to be addressed. We are also working with some government-owned property developers (such as PR1MA) on how we can assist them on this kind of scheme," he says, adding that Cagamas would prefer to launch it sooner rather than later. However, he is unable to give a deadline as yet.

Chung says Cagamas will need to raise money in the capital market to fund the scheme if it is to be launched this year.

"Last year, we raised about RM15 billion via the issuance of bond and sukuk. This year, it will also be around that range — between RM15 billion and RM16 billion. Even if the schemes are to be launched this year, it should be sufficient," he adds.

Cagamas is the largest issuer of corporate debt securities in Malaysia.

Asked if such schemes will prolong the property bubble in the country, Chung replies that they will not. It is vital for the banking system to make an assessment on the creditworthiness of the borrowers, he says. "Financial stability is critical to the country. What we want to see is for the schemes to facilitate those who are creditworthy to borrow and at the same time, make it affordable for them to buy their desired homes."

He stresses that there is a need for people who want to buy property to understand it is a long-term commitment. As an illustration, he cites the Agensi Kaunseling & Pengurusan Kredit (AKPK)'s Rumahku Portal. One out of five people who used the portal to assess their credit profile backed out of their plan to buy property when they realised the commitment required.

For Chung, the scheme and other initiatives taken by the government to facilitate the purchase of property will help direct the demand to the right supply pool.

"It will be able to match the demand to the right supply side. Basically, you don't see wastage of development units that remain unsold as they are not attractive to buyers. To some extent, it should help in putting together demand and supply. It will help increase further the state of home ownership," he states, noting that about 30% of Malaysians do not own a home currently.

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HOUSING MARKET OUTLOOK TO IMPROVE

The application of big data on demand and supply, matched with factors such as key employment zones, lifestyle requirements and infrastructure amenities, as well as measures to improve financing affordability is expected to lead to greater alignment and lead to a gradual improvement in the housing market.

Chung notes that innovative financing methods such as Cagamas' Skim Rumah Pertamaku (SRP) will provide support and financing options for first-time homebuyers.

Cagamas is involved in the SRP and the Skim Perumahan Belia (SPB), introduced by the government and Bank Negara Malaysia. SRP and SPB, which were launched in 2011 and 2015 respectively, are aimed at assisting eligible first-time homebuyers. However, these are not shared equity schemes.

The government's initiative to provide one million affordable housing within the next 10 years is another step forward to improve the mismatch between affordability and pricing, Chung says.

While he acknowledges that the rising prices of certain imported materials as well as land have contributed to the higher cost of business for property developers, he says there is a need for them to innovate and adopt new ways of construction. Traditional methods are usually labour intensive and require a longer completion period.

"New construction technology such as the industrialised building system (IBS) and Building Information Modelling (BIM) have been mooted in the National Housing Policy 2018-2025 to reduce cost and improve affordability of housing. We have seen Malaysian companies deploying technology such as Digital IBS to not only shorten completion time but also reduce cost as less labour is required. In addition, much lower interest is paid on property bridging loans as the bridging finance duration is now much shorter," he adds.

Moving forward, Cagamas also foresees the emergence of alternative financing such as crowdfunding, a form of peer-to-peer (P2P) financing.

While Chung sees the potential of such schemes to reach the masses and raise funds quickly, he stresses the need for adequate investor protection.

Investors have to be aware of and understand the risks in this asset class, he says. Apart from that, "an active secondary market for investors to enter and exit is important for the crowdfunding platform to be effective".

Notably, there is a need to understand that property is not a liquid asset, and that the collateral value varies according to market conditions. Other key issues are the investment horizon (potentially for the entire life of the loan, typically about 20 to 35 years), holding power of investors, lumpy cash flow if instalments are overdue, potential defaults and losses and avenues as well as mitigants such as recovery processes under the crowdfunding platform.

"At the end of the day, success will be determined by the attractiveness of the properties and the number of homebuyers or borrowers on such platforms, populated by educated investors, and a robust regulatory framework," Chung says.