

# CAGAMAS' 30 YEARS OF HOUSING THE NATION

AFFORDABLE housing continues to be a challenge in Malaysia as prices of private homes continue to increase while supply of units in the affordable category remains inadequate to meet the demand of the low to middle income group.

Based on Bank Negara Malaysia 2016 annual report, the housing affordability ratio in 2014 in Malaysia was 4.4, indicating that houses in Malaysia as a whole, were "seriously unaffordable".

"It is crucial to note that the key underlying issue in enhancing accessibility and affordability of home ownership in Malaysia is attributed by escalating house prices and shortage of supply in affordable housing," Cagamas Bhd CEO Datuk Chung Chee Leong explains.

Despite the challenges, Chung, who has been with Cagamas since April 2012, says the national mortgage corporation will continue to play its role in promoting the broader spread of house ownership and growth of the secondary mortgage market in the country.

According to Chung, Cagamas' existing business model of providing liquidity to financial institutions at competitive costs to the primary lenders of mortgages will encourage further expansion of financing for houses at an affordable cost which, in turn, will increase home ownership by Malaysians.

"Cagamas has indirectly contributed to the 'accessibility' of financing by house borrowers and other costs by providing competitive, long-term and ready financing to financial institutions for financing of house mortgages," he says.

As at-end July 2017, Cagamas had cumulatively refinanced housing loans in the secondary market worth up to RM134bil, or about 1.9 million houses.

As one of the strategic directions for the company, Chung says, Cagamas is also consistently looking to play a role in government-initiated housing programmes. For instance, it will continue to participate in the Skim Rumah Pertamaku (SRP) and Skim Perumahan Belia (SPB), the two schemes initiated by the government and launched in 2011 and 2015 respectively.

Its sister company Cagamas SRP Bhd acts as guarantor for these programmes that allow young individuals or households to obtain 100% financing, enabling them to own their first home without the need to make the 10% downpayment.

As at July 31, 2017, Cagamas has provided guarantees for housing loans totalling RM1.6bil, enabling 7,413 individuals/households to own their first homes, Chung says.

The group is also actively engaged in dialogues on affordable housing.

For instance, Cagamas' parent company, Cagamas Holdings Bhd, in July organised a "Dialogue on Sustainable Development of Affordable Housing" aimed at creating a platform for an exchange of views by industry experts to deliberate on issues relating to affordable housing both locally and interna-



**Chung:** Cagamas will continue to play its role in promoting the broader spread of house ownership.

tionally. Arising from the dialogue, Cagamas is further exploring opportunities to assist the government in the area of affordable housing.

## Multiple milestones

Established in 1986, Cagamas has since evolved from its first mandate as the national mortgage corporation to promote the broader spread of home ownership and act as the catalyst for growth of secondary mortgage market as well as the fixed income market.

Today Cagamas is a full-fledged mortgage corporation, providing competitive funding to financial institutions to grow their housing loan portfolio and to hedge interest-rate risk exposure for their housing loans, provide financial institutions with the solutions to manage their balance sheet and capital through securitisation, and promoting home ownership through the provision of guarantee.

It is the second largest issuer of bonds and sukuk after the government. It is the largest non-government issuer of debt in Malaysia and also pioneered the Islamic capital market which serves as a role model for other Islamic countries.

Cagamas continues to maintain its strong credit ratings of A3 by Moody's and AAA by RAM Rating Services Bhd and Malaysian Rating Corp Bhd, attributed by the company's track record of strong capitalisation, robust asset quality, stable profitability, prudent risk management and sound corporate governance.

As at Aug 31, 2017, the cumulative amount of bonds and sukuk issued by Cagamas group of companies stood at RM304.2bil.

"Over the years, Cagamas has developed various bond structures (conventional and Islamic) to meet the demands of a broad spectrum of investors," Chung says.

In 2014, spearheaded by Chung, Cagamas has successfully entered the international markets via the establishment of US\$5bil Conventional and Sukuk Multi-Currency Euro Medium Term Note Programme (EMTN) following which the company had successfully raised competitive funding via issuances in offshore Renminbi, Hong Kong dollar, US dollar and Singapore dollar bonds from its conventional and sukuk programmes. This includes its inaugural CNH1.5 billion issuance and benchmark US\$500mil issuance in 2014, as well as the inaugural Singapore dollar sukuk in 2015.

"We have witnessed positive results from diversification of our current geographic and institutional pool of investors, which further enhanced and strengthened our funding base," he adds.

Since the establishment of the EMTN Programmes, to date Cagamas has successfully concluded 17 foreign currency issuances amounting to ringgit equivalent of RM8.5bil.

"Moving forward, Cagamas is in a strong position to continue to transform itself to meet the challenges ahead, including proactively identifying opportunities, provide innovative solutions and develop more diverse financial products to meet investors' demands and be an active partner to the financial institutions to build breadth and depth to the financial market and system in Malaysia," Chung says.

"Key success factors such as engagement of technology to drive efficiency in operations supported by the strong talent, prudent risk management and good corporate governance will ensure the sustained growth and success of Cagamas," he notes.

Among other things, Cagamas will continue to focus on developing risk and capital management solutions to assist financial institutions, especially in light of Basel III and MFRS 9; enhancing product offering to financial institutions to further spur the growth of SME and infrastructure financing; and cooperating with secondary mortgage corporations in the region via the Asian Secondary Mortgage Market Association.

Cagamas will also explore regional opportunities to replicate its business model in South-East Asia as well as complementing Malaysian financial institutions as they expand abroad, and intensify its efforts to diversify its geographic and institutional pool of investors.

"This will further increase our flexibility to raise competitive funds in different currencies other than ringgit, our visibility and

strengthen our position as a global issuer," Chung says, adding that Cagamas will also explore new markets for its bonds and sukuk, specifically targeting the issuance of Panda bonds in China, Pro-Bond in Japan, Kangaroo bonds in Australia and Formosa bonds in Taiwan.

Undeniably, Cagamas plays a crucial role in Malaysia's financial sector.

"Cagamas plays a systemically important role in the domestic financial system, underpinned by its dual function as liquidity provider and as a leading issuer of corporate bonds and sukuk," Chung points out.

"Cagamas also acts as a conduit to reduce systemic risk in the financial sector and functions as an intermediary in the Malaysian financial system between primary lenders and investors of long term funds, as well as facilitate in policy formulations and working closely with Bank Negara," he adds.

For instance, during the 1997/98 Asian Financial Crisis and 2007/08 Global Financial Crisis, Cagamas helped sustain the domestic financial system by continuing to supply liquidity and interest rate management tools to mortgage originators. These were evidenced by the largest annual issuances by the company during the crisis.

## Unique policy role

Cagamas helped to avert a residential mortgage credit crunch at a time when housing prices declined during the Asian financial crisis.

"Cagamas is viewed as systematically important in the Malaysian financial sector with its unique policy role, given its significant linkages with other financial institutions and its prominent role in the domestic debt capital market. It is often seen as the lender of second last resort," he explains.

To further support the stability of financial system, especially when a bank has been declared non-viable by Bank Negara, Cagamas has entered into an agreement with Perbadanan Insurans Deposit Malaysia, or PIDM, to participate in its Intervention and Failure Resolution Framework.

In addition, Cagamas has contributed to greater financial stability by reducing the maturity mismatch inherent in the financial system by enabling originators of housing finance to better match the maturity structure of their housing loans/financing to the source of funds. It also provides financial institutions with a channel to hedge their interest rate risk and to reduce negative carry via asset swapping.

"Cagamas has also fulfilled its mandate as catalyst for the development of the fixed income market in Malaysia through regular and large issuances of bonds and sukuk with multiple tenures to form a benchmark yield curve."

