

CAGAMAS TO TAKE ON MORE LOANS

National mortgage body targets RM10.5bil loans in 2017

CAGAMAS Bhd will increase its purchase of loans, particularly housing loans, from financial and non-financial institutions in Malaysia next year as part of an initiative to support the growth of financing for homes at an affordable cost in the country.

The national mortgage corporation set a target to purchase RM10.5bil worth of loans – RM7.5bil conventional loans and RM3bil Islamic asset purchases – for 2017. The amount is an increase of RM2.5bil over its targeted asset purchases of RM8bil this year.

According to Cagamas chief executive officer Datuk Chung Chee Leong, the group's targeted asset purchases will determine the value of bonds and sukuk to be issued in any particular year.

The currency of issuance will depend on the opportunity and lowest cost of fund at the point of issuance, he says in response to questions on Cagamas' plans to divide the amount between local and cross-border issuances.

"Cagamas has been catering to both conventional and Islamic investors by issuing conventional bonds and sukuk in the domestic and international bond market," Chung says.

"Corporate bonds and sukuk issued by Cagamas have tenures ranging from three months to twenty years, which make the papers attractive to different investor segments – from financial institutions to corporates, insurance companies, asset managers/trust funds as well as foreign investors," he says.

Established in 1986, Cagamas' main role is to promote the broader spread of home ownership and growth of the secondary mortgage market in Malaysia.

It issues corporate bonds and sukuk to finance the purchase of housing loans from financial institutions and non-financial institutions. The provision of liquidity to financial institutions at a reasonable cost to the primary lenders of housing loans encourages further expansion of financing for houses at an affordable cost.

Big issuer

Cagamas is the largest issuer of corporate bonds and sukuk in Malaysia, with RM286bil issued since 1987.

It recorded the highest secondary market volume for local corporate bonds and sukuk of over RM16.5bil year-to-date. The value is second only to that of government securities.

"The achievement has enabled Cagamas to mobilise foreign investors' liquidity and increase foreign investors' holding of its domestic papers from 0.6% as at September 2015 to 7.6% as at September 2016," Chung says.

"This initiative has enabled Cagamas to reduce its cost of funds – achieving its mandate to continue making housing loans more affordable to promote home ownership as well as to develop and promote corporate bonds and sukuk in Malaysia," he says.

As at October 20 this year, Cagamas' outstanding bonds and sukuk stood at RM32.1bil, comprising RM26.8bil of ringgit issuances and RM5.2bil equivalent of foreign currency issuances in Renminbi, Hong Kong dollar, US dollar and



Chung says the group's targeted asset purchases will determine the value of bonds and sukuk to be issued in any particular year.

Singapore dollar.

"Cagamas targets to be the corporate issuer of choice and benchmark among local corporate issuers by providing competitive cost of funding thus assisting similar rated local corporate issuers to achieve lower funding costs," Chung says.

"Apart from low cost of funding, liquidity is also a key factor in any economy. As such, Cagamas intends to focus not only on providing funding avenues to financial institutions but also on providing alternative investment options to investors," he adds.

On that note, Chung says Cagamas will concentrate on diversifying its current geographic and demographic pool of investors to further enhance its position, by reducing its reliance on the domestic market for liquidity and obtaining inflow of funds from foreign investors participating in its locally issued ringgit-denominated papers.

"The diversification of investors will further promote the visibility of Cagamas as a global Malaysian issuer and assist in mobilisation of funds into the local currency corporate papers," says Chung.

He adds that Cagamas will continue to explore new markets to issue its bonds and sukuk, among them the issuance of Pro-bonds in Japan and Panda bonds in China.

Promoting home ownership

In promoting home ownership in the country, Cagamas has refinanced about two million homes since its inception.

Cagamas is also making efforts to promote regional cooperation among the secondary mortgage corporations via the establishment of the Asian Secondary Mortgage

Market Association (ASMMA).

"ASMMA intends to provide a platform for secondary mortgage market corporations in Asia to exchange ideas, views and experiences that help in promoting the housing finance market, exchange of learning and best practices, and regional capital market integration," Chung says.

Apart from that, Cagamas will continue to focus on its existing role of promoting home ownership in Malaysia via its current Purchase With Recourse (PWR), Purchase Without Recourse (PWOR), My First Home Scheme (SRP) and Youth Housing Scheme (SPB).

"Cagamas plays an active role in supporting sustainable housing finance system in the primary market by providing liquidity and hedging to mortgage financiers under its PWR scheme. By doing so, it helps to narrow the gap between the maturity structure of the housing loans and the source of funds," Chung says.

He says that Cagamas' role as a conduit to link the mortgage market and the capital market is made possible by its AAA bond ratings accorded by RAM Rating Services Bhd (RAM) and Malaysian Rating Corp Bhd (MARC), and its sovereign equivalent A3 rating by Moody's.

"Through this mechanism, Cagamas is able to provide the financial institutions with an avenue to secure longer term funding at a low cost through Cagamas' ability to generate high investor demand for its bonds and sukuk," he adds.

On the affordable housing front, Cagamas is involved in various schemes initiated by the Government such as the SRP programme that was launched in 2011 and the SPB scheme launched in October 2015. Its sister company,

Cagamas in numbers

> It is the largest issuer of corporate bonds and sukuk in Malaysia, with

RM286bil issued since 1987.

> It has provided guarantee for housing loans totalling **RM840.8mil** as at September 2016, enabling 3,978 individuals/households to own their first homes.

> It targets to purchase **RM10.5bil** worth of loans – RM7.5bil conventional and RM3bil Islamic asset purchases – for 2017

> Its outstanding bonds and sukuk stood at **RM32.1bil**, comprising RM26.8bil of ringgit issuances and RM5.2bil equivalent of foreign currency issuances, as at Oct 31, 2016

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

Chung says that Cagamas has provided guarantee for housing loans totalling RM840.8mil as at September 2016, enabling 3,978 individuals/households to own their first home.

"The company is also in the process of identifying opportunities to participate in the current offering of affordable housing schemes by the federal and state governments, municipal councils or Perumahan Rakyat 1Malaysia (PR1MA)," he adds.

Affordable housing

With Malaysia's population expected to reach 32.5 million by 2020, Chung says there will be huge demand for housing, especially in the affordable segment.

"The shortage of affordable housing is one of the core issues faced by Malaysians. This is due to the sharp increase of house prices as well as inflation of living goods," Chung explains.

In the past, the focus was on providing affordable and adequate housing only to the lower income group.

Many individuals who were caught in the "middle income trap" were ineligible for low-cost housing, and yet they could not afford to purchase "medium cost" units – resulting in a demand for more affordable housing which far exceeded the supply of houses deemed affordable.

"Generally, the affordable housing issue in Malaysia can be considered from two angles, namely the increase in house prices and the

availability of housing loans," Chung says.

He points out that aggregate house prices in Malaysia have risen beyond levels that are consistent with Malaysia's economic fundamentals.

The National Property Information Centre (Napic), for instance, states that the housing index has been growing at an average rate of 10% per year from 2011 to 2015, in part fuelled by speculative activities in the property sector.

However, the measures to ban Developer Interest Bearing Scheme in 2013 and a revision of the real property gains tax in 2014 by Bank Negara and the Government, respectively, managed to mitigate the speculative activities in the property sector, as evidenced by the slowdown in the growth of Malaysian house price index.

Data from Napic shows that the growth of house price index slowed to 5.3% in the first half of 2016 from 7.5% in the corresponding period last year.

Besides supporting the Government's initiatives in promoting home ownership and affordability by participating in housing schemes such as PR1MA, "Cagamas is also ready to explore the infrastructure segment by potentially providing funding that can improve the coverage of mass transportation system. By doing so, it has its multiplier effects including the development of housing projects in less urbanised areas," Chung says.

Corporate social responsibility (CSR)

"We will continue to focus on the environmental, social and governance criteria (ESG) in Cagamas' CSR efforts," Chung asserts.

As part of the company's CSR efforts to promote sustainable, positive social and environmental change, Cagamas recently launched its bond-free Cagamas Scholarship Programme (CSP). The CSP adopts a holistic approach, whereby scholars are provided support in developing soft skills, as well as a mentoring programme where each scholar is assigned a mentor from the senior management team including the CEO.

Under its CSR initiatives, Cagamas has provided book sponsorships which tie in with the Malaysia International Islamic Financial Centre's initiative to promote the country as an international Islamic financial hub. Cagamas has also sponsored the construction of homes for eligible recipients under its zakat initiatives and assisted single mothers by channelling funds towards the purchase of equipment required for each recipient's business to improve productivity thus generating more income.

Essentially, Cagamas, while focusing on its role in promoting home ownership and growth of the country's capital market, will also continue to apply the principles of social responsibility to its own operations such as reducing and managing its environmental impact, eliminating discrimination, promoting equal opportunity, ensuring transparency and integrity in its governance, developing a long-term philanthropic policy and encouraging the social involvement of its employees, Chung says.