

# Safety net for seniors

## Cagamas to soon launch Malaysia's first reverse mortgage scheme

By Goh Thean Eu

Malaysia's national mortgage company Cagamas has played a pivotal role in growing home ownership and the secondary mortgage market since it was established in 1986. It purchases housing loans from banks using proceeds from bond issuances, and provides liquidity at reasonable cost to financial institutions to encourage the banking industry to offer affordable home financing.

The state-owned company will soon launch what will be a first for Malaysia: reverse mortgage. It's aimed at helping seniors to finance their retirement by tapping into what is, for many, their single most valuable asset, without fear of losing their homes.

"Cagamas intends to have the reverse mortgage product operationally ready for its targeted launch by the end of this year," President and Chief Executive Officer Chung Chee Leong says in an interview with *Asia Asset Management*.

The move is timely as the World Bank has declared Malaysia to be an ageing society. The Bank defines the population of a country as ageing when more than 7% of them are at least 65 years old. It estimates that this share in Malaysia will double to 14% by 2044 and hit 20% by 2056.

Increased life expectancy means people now spend more years in post-retirement life than previous generations did. The downside is that many don't have enough saved up to finance this part of their life adequately. According to the Employees Provident Fund, Malaysia's largest pension fund, most of its members deplete their retirement savings within a decade of retiring.

One of the factors which motivated Cagamas to develop the reverse mortgage product was the many news stories of how the elderly are being left to fend for themselves, or having to sell their homes to enable them to live mod-

estly. The so-called sandwich generation which has to care for their own children as well as their parents are also under enormous stress to look after elderly parents who cannot support themselves.

"Having read these stories and personally observed a few of them myself, I firmly believe that having an independent income source such as reverse mortgage while ageing at home would alleviate at least some of these stressors for both [the seniors] and their families. Likewise for single retirees, financial independence would be much easier in addition to peace of mind in their ageing years with a reverse mortgage," Chung says.

### The way it works

The reverse mortgage product is expected to be open to Malaysians who are at least 55 years old and own a home, ideally one that is fully paid off. The home, which is used to secure the mortgage, must be currently occupied by the applicant.

Cagamas appoints a valuer to determine the market value of the property. The applicant gets a fixed monthly sum for life based on the market value and the applicant's age. Where the borrower is a couple, the payment will be made until both pass away.

"There is also no repayment during their lifetime," Chung says. If the next of kin decides to keep the property, they will have to repay the mortgage loan. If it's not repaid, the property is sold and any excess money will be given to the next of kin. But if the selling price is lower than the outstanding loan, a guarantor appointed by Cagamas bears the loss.

Chung says one unique feature of Cagamas's reverse mortgage is that it allows part of the total amount to be disbursed as a one-off lump sum at the start, which the applicant can use to settle any outstanding loan on the home, or for other purposes related to the property, such as maintenance and upkeep.

### Making it sustainable

Reverse mortgages may be new in Malaysia but are quite common in many other countries, including Hong Kong, Korea, Japan and Singapore. Even so, Chung points out that it took time before they became widely accepted in those countries.

"Insights gathered from our counterparts in Asia indicate that, while response to reverse mortgages was at a measured pace during the initial stage, there has been a significant increase in reverse mortgage applications in recent years. This is mostly due to greater product awareness and acceptance among the elderly," he says.

Chung expects a similar trajectory in Malaysia, and is optimistic that seniors will come to view reverse mortgages as one of their financial options for retirement. "With participation from financial institutions, reverse mortgages would be more accessible to the elderly, and will ultimately integrate into a mainstream product offering," he says.

According to Chung, sustainability is the key for reverse mortgages to be a viable retirement planning option. This means property prices have to be valued correctly. "To ensure this, Cagamas will launch a pilot within the Klang Valley as the reverse mortgage provider. The pilot would enable us to gather insights while we work towards refining and aligning reverse mortgage with market demand," he says.



Chung Chee Leong