Cagamas gets creative with funding base

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A veteran local bond issuer since 1986, it wasn't until 2014 that Kuala Lumpur-based Cagamas turned to international debt capital markets to diversify its funding base and to access finance more cheaply.

Such efforts are greatly appreciated by all players in the value chain — from financial institutions to the average Malaysian homemaker — because Cagamas plays an active role in promoting home ownership by making the cost of mortgages more affordable.

Via the issuance of regular debt instruments, Cagamas is able to inject this liquidity into the financial system at a reasonable cost — thanks to its high-credit rating and government ownership — by buying up banks' mortgages. The liquidity is then passed on to the primary lenders of housing loans.

This encourages further expansion of cheap financing for houses, which was once upon a time unavailable due to the large maturity mismatch between housing loans and the deposits obtained by banks.

While obtaining cheap funding is a priority, so is the need to diversify. Heavy reliance on a single benchmark is a risk, chief executive officer of Cagamas, Chung Chee Leong, told FinanceAsia in an exclusive interview — not least for a borrower of Cagamas's size.

Chung Chee Leong

Cagamas is Malaysia's second-biggest issuer of debt instruments, second only to the government, and the country's biggest seller of triple-A debt securities. According to its latest financial statement in April, Cagamas's total outstanding debt securities, excluding residential mortgage backed securities, accounts for 9% of Malaysia's total outstanding corporate debt securities and 22% of its outstanding triple-A debt instruments.

"We want to reduce our overreliance on a single benchmark for our pricing," Kuala Lumpur-based Chung said. "When volatility increases for that particular benchmark yield curve, investors will demand a higher spread to compensate for that additional risk, which may not be a true reflection of Cagamas's credit quality."

The need to diversify away from one benchmark — in Cagamas's case, the Malaysian Government Securities yield curve — is particularly pressing. That is because the Southeast Asian nation has been going through a rough patch with its fiscal position weakening due to a double whammy of mounting debt and lower oil revenues.