

**The 5<sup>th</sup> ASIAN Fixed Income Summit**  
2<sup>nd</sup> July 2018, Ulaanbataar, Mongolia

# HOUSING FINANCE SOLUTIONS

**Datuk Chung Chee Leong**  
President/Chief Executive Officer  
Cagamas Berhad





## **Housing Finance Solutions**

- **Malaysian Experience**

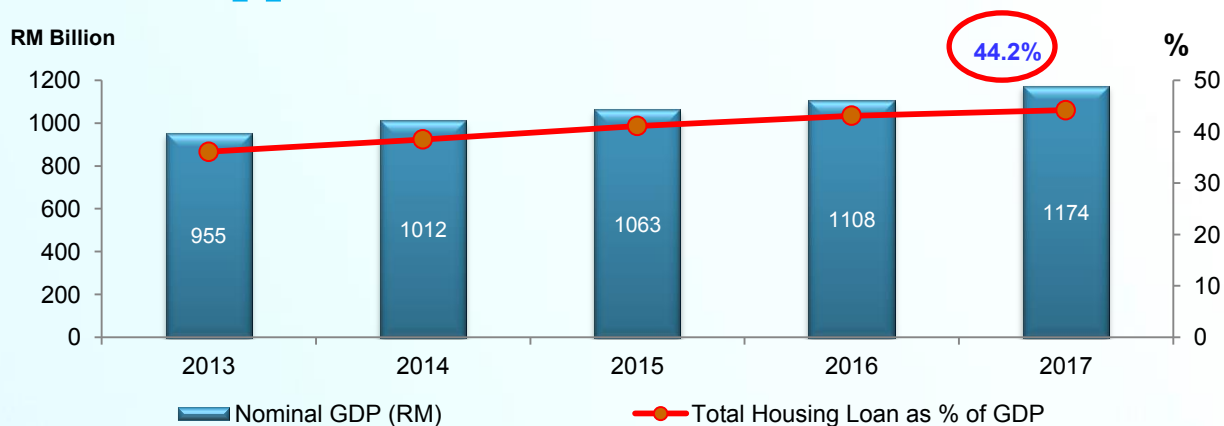
# Housing Finance Market

## Mortgage Originators in Malaysia:-

Private sector plays a dominant role in development in Malaysia

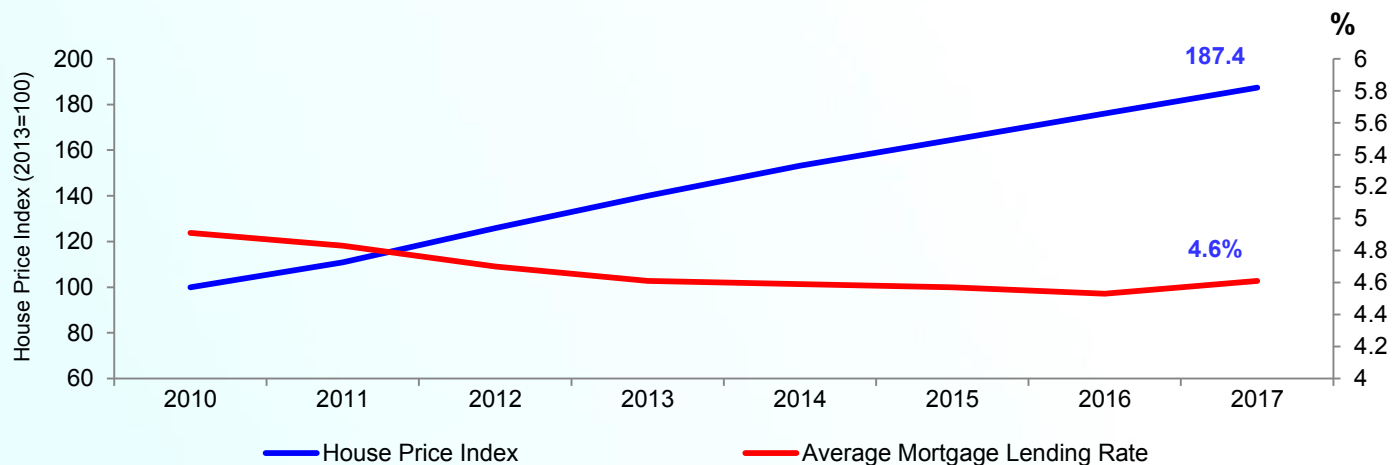
Private Sector	Public Sector	Secondary Mortgage Corporation
<ul style="list-style-type: none"> <li>Commercial Banks (Conventional and Islamic Banks)</li> <li>Development Financial Institutions</li> <li>Others : Insurance, Co-operatives, Government Link Companies (GLCs)</li> </ul>	<ul style="list-style-type: none"> <li>Public Sector Housing Financing Board</li> </ul>	<ul style="list-style-type: none"> <li>Cagamas Berhad</li> </ul>

## Housing Loans Outstanding to GDP:-

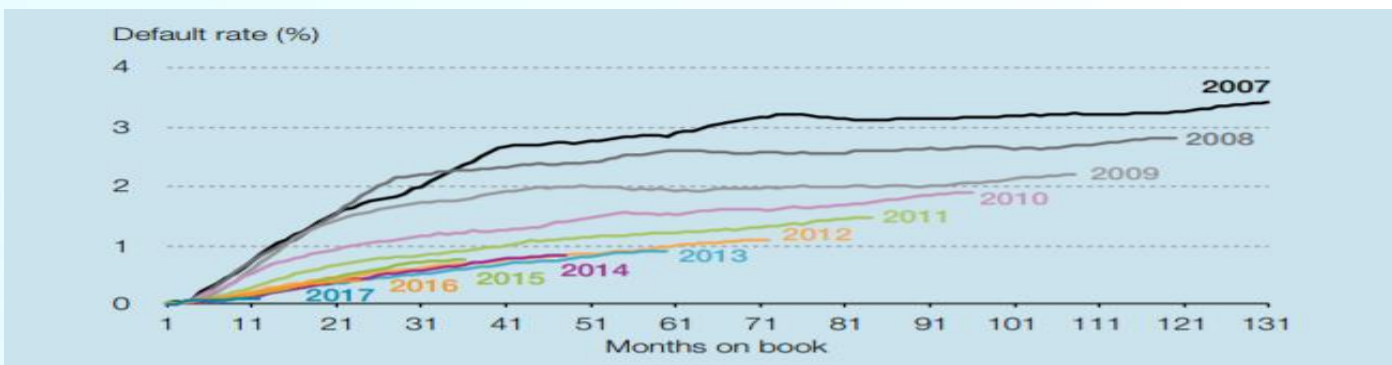


# Housing Finance Market (cont'd)

## House Price Index and Mortgage Rate :-



## Default rates of housing loans improved since 2007:-



# Housing Finance System

## Role of Malaysian Government

### Government Policy

- Increase supply of housing to the market
- Provision of adequate, affordable and quality houses
- Enhancing accessibility to housing finance supply
- Encourage home ownership

### **Objective of housing policy**

- to increase accessibility to adequate, affordable and quality houses

### **Actively promote home ownership since 1970s**

- especially among the lower and middle income groups



# Housing Finance System (cont'd)



## Government Assisted Financial Schemes

- Provision of adequate, affordable and quality houses for all Malaysians in various income levels with the introduction of many housing schemes

Schemes	Service/Product Offering
Housing Credit Guarantee Scheme	<ul style="list-style-type: none"> <li>▪ Guarantee scheme to enable applicants above 18 years old with good repayment capability but without fixed income, to purchase their first home priced up to USD75,000</li> </ul>
My First Home Scheme	<ul style="list-style-type: none"> <li>▪ Guarantee scheme that enables applicants below the age of 40 years with monthly income of up to USD1,250 (for single) and USD2,500 (married) to purchase their first home of up to USD125,000.</li> </ul>
Youth Housing Scheme	<ul style="list-style-type: none"> <li>▪ Financing facility with guarantee facility to assist single or married youths between 21 to 45 years old, with income of up to USD2,500 to own their very first home. The Government is also to aid monthly instalments of USD50 per month for a period of 2 years to help buyer to pay for the instalment or interest of the mortgage.</li> </ul>
Housing Special End Financing Scheme	<ul style="list-style-type: none"> <li>▪ Financing facility to assist applicants above 21 years old to purchase homes with flexible loan repayment.</li> </ul>

# Housing Finance System (cont'd)

## Role of Regulator

The **Central Bank of Malaysia** take a responsible and measured approach to ensure Malaysia's housing market remains strong and stable.

*The regulatory enhancements include:*

Strengthen risk management standard and corporate governance practices by financial market players

Effective policies in place for development of housing finance system

Comprehensive and robust regulatory and supervisory framework and effective surveillance



# Housing Finance System (cont'd)



## Measures Introduced : Guidelines on Responsible Financing



Maximum tenure for home financing is 35 years.



Affordability assessment takes into account all existing debt obligations, including financing from all FSPs and other non-bank entities.



No prescribed debt-service-ratio (DSR) level but FSPs shall ensure that the DSR level is prudent enough to prevent the customers from becoming over-leveraged.



Proof of income may include salary slip, EPF statement, savings account statement or income tax submission.



Borrowers with no permanent employment or are self-employed may be required to provide evidence of income for a period of at least 6 months.





## Housing Finance Solutions

- **Cagamas Experience**

# Company Background

 The market situation in the mid-1980's:-

Funding mismatch in financial institutions resulting in liquidity crunch

Financial institutions were not lending to homebuyers despite their demand

Limited funding source in the market – no bond market



There was a need in the market for an institution to:-

- Function as intermediary between primary lenders and investors of long term funds; and
- Take on role of credible issuer of mortgage securities



# Company Background (cont'd)

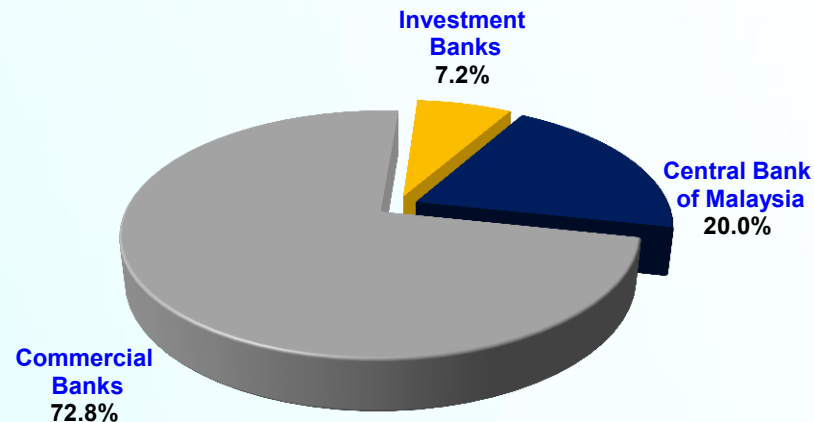


## Establishment of Cagamas

- Commenced operations in 1987 as the National Mortgage Corporation
- To promote the broader spread of house ownership and growth of the secondary mortgage market in Malaysia



## Ownership Structure



# Regulatory Environment

 Governed by the following regulations under the respective authorities:-



## Bank Negara Malaysia

- Financial Services Act 2013 (FSA) and Islamic Financial Services Act 2013 (IFSA)



## Securities Commission

- Capital Markets and Services Act 2007



## Bursa Malaysia

- Electronic Trading Platform



## Laws of Malaysia

- Companies Act 2016
- Labuan Companies Act 1990



# Regulatory Environment (cont'd)

## Regulatory support received :-

### Before 2004

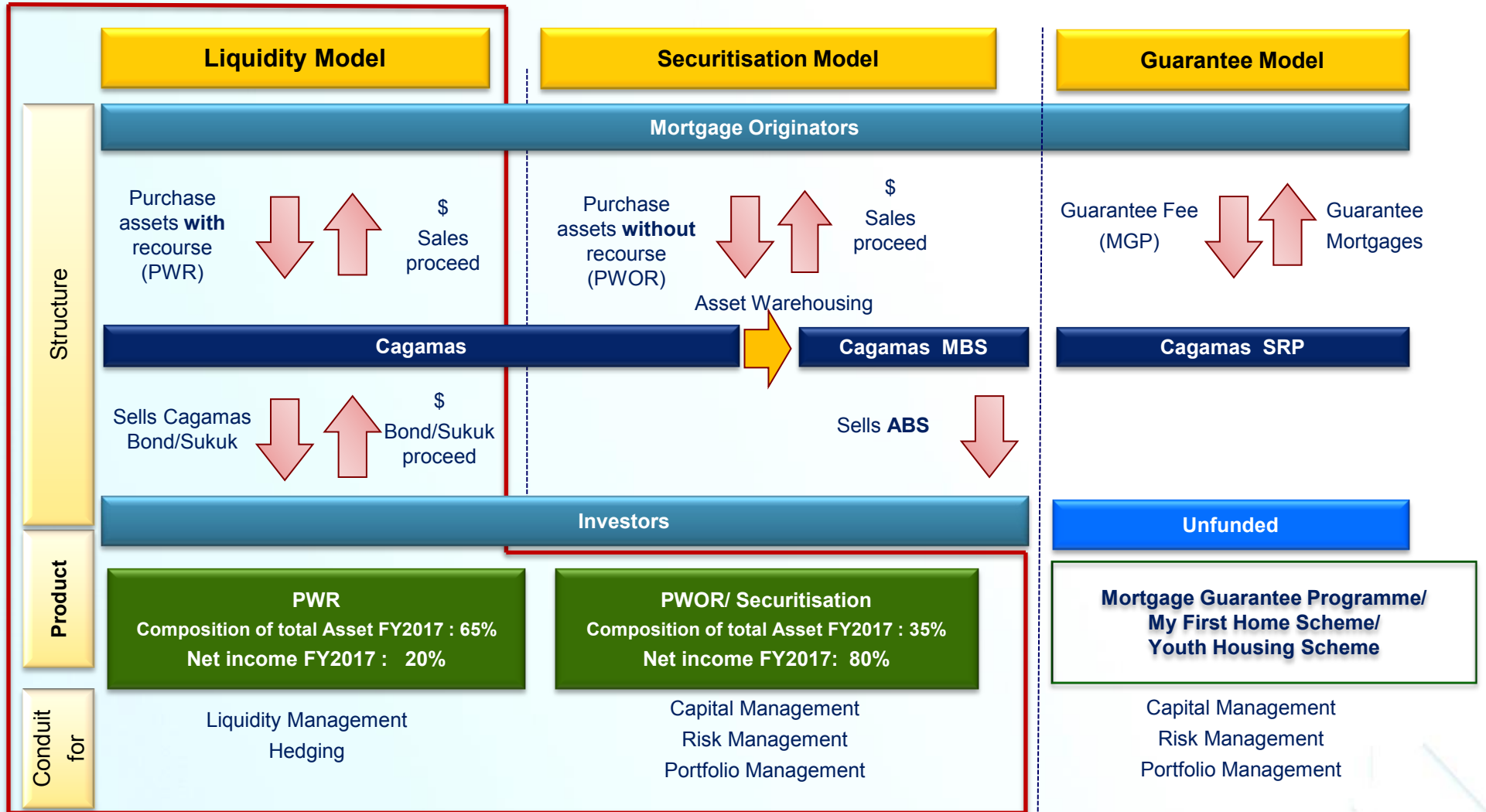
- 10% risk weight under the Risk Weighted Capital Ratio framework
- Class-1 liquefiable assets status under the liquidity framework
- 4% yield slippage under the liquidity framework
- Exempted from Single Customers Credit Limit (SCCL)
- Mode of primary issuance is through Principal Dealers' network
- Holdings by insurance companies classified as low risk asset
- A scheduled institution under Banking Financial Act (BAFIA)
- Access to domestic interbank money market (sole corporate participant)

### Current

- 20% risk weight under the Risk Weighted Capital Ratio framework
- Class – 2A under Liquidity Coverage Ratio (LCR)
- Liquidity Framework superseded by Liquidity Coverage Ratio (LCR)
- Subject to SCCL of 25% of the total capital funds
- Mode of primary issuance is not through Principal Dealers' network
- Holdings by insurance companies classified as credit facilities
- Registered persons status under the Capital Markets and Services Act 2007 (CMSA)
- Access to domestic interbank money market (sole corporate participant)

# Strategic Business Model

Cagamas Berhad



# Housing Finance Solutions

1

**Providing liquidity and hedging** to mortgage financiers – PWR programme

2

**Promoting origination of longer tenure house financing**

- Longer tenure financing of up to 35 years
- Demand for houses has strengthened and house financing is more affordable

3

**Generating strong competition among FIs to grant house financing.** Provide access to competitively priced funds, resulting in easy access to affordable house financing (particularly the low cost sector)

4

**Developing innovative structures** for mortgage financiers – mortgage guarantee under the My First Home Scheme (SRP) and Youth Housing Scheme (SPB) to promote home ownership among young working adults

5

**Linking the mortgage market to the capital market** – development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic

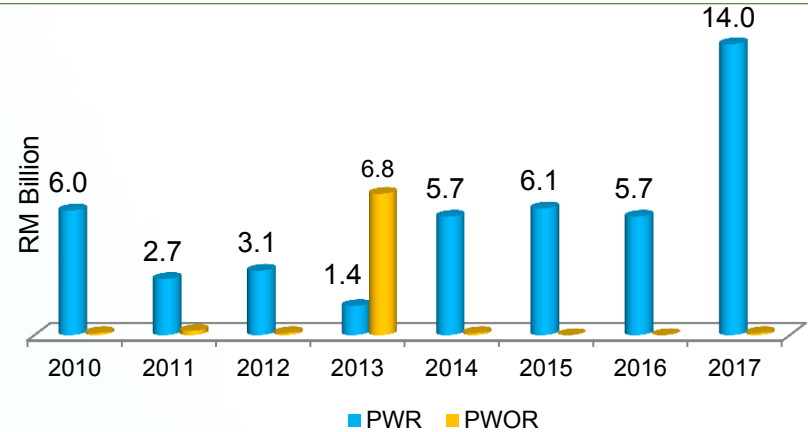


# Housing Finance Solutions (cont'd)



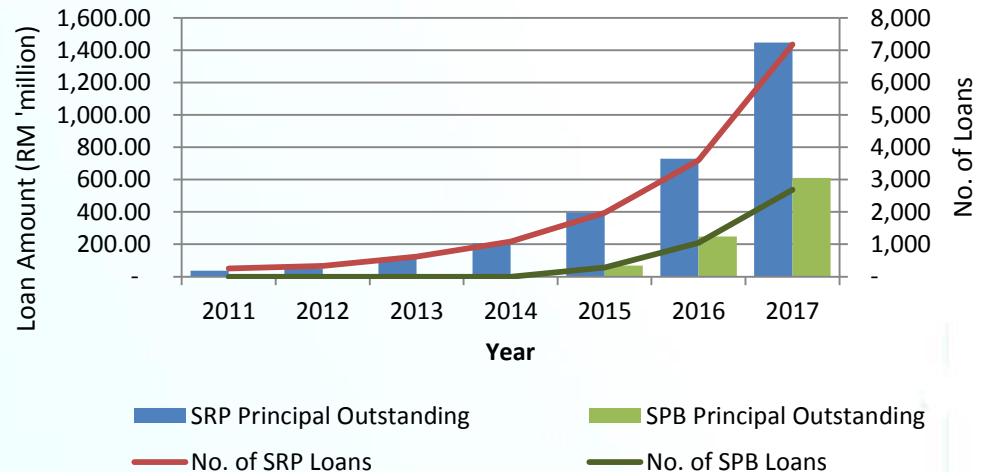
## Asset Purchased of PWR/PWOR

- Significant PWR purchase of RM14 billion in 2017 was due to FIs meeting net stable funding ratio (NSFR) for more stable funding requirements by 2019 and the need to maintain Liquidity Coverage Ratio (LCR) as part of implementation of BASEL III regulations.



## Mortgage Guarantee Facility by CSRP Berhad

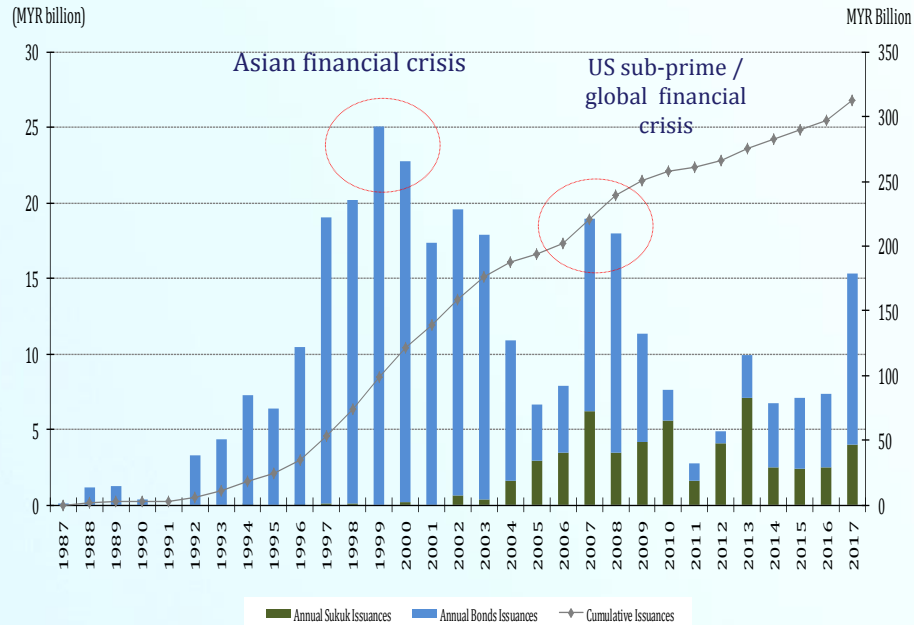
- Significant growth in both SRP and SPB since 2015
- No deterioration of credit profile for both schemes
- Government continue to support schemes via allocation of guarantee fee fund
- As at 31 Dec 2017, guarantee provided by CSRP has enabled 9,840 individuals/household to own their first home



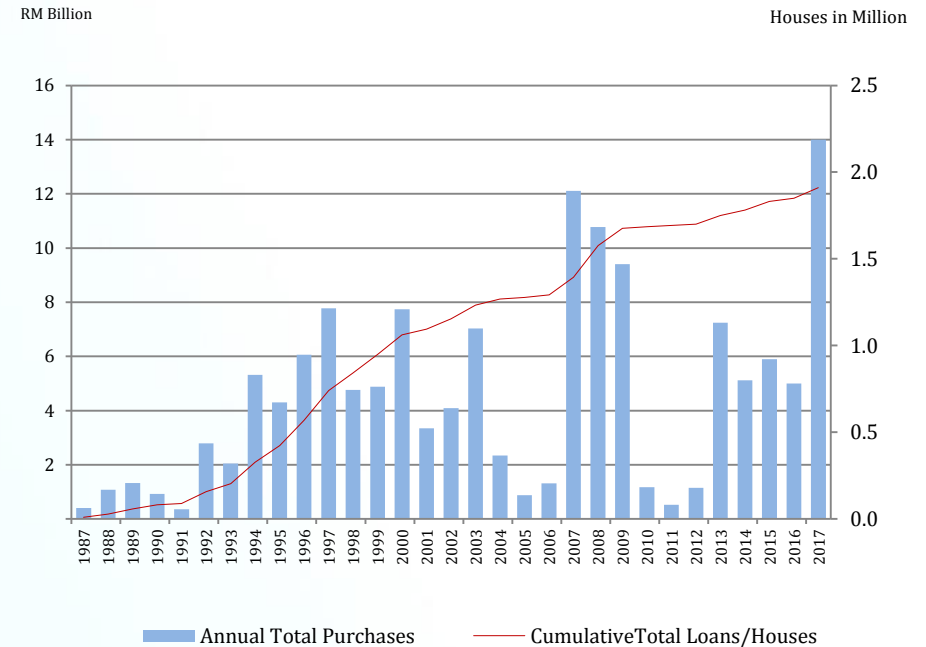


# Purchases and Issuances

## Total Issuances



## Cumulative Refinanced Housing Loans

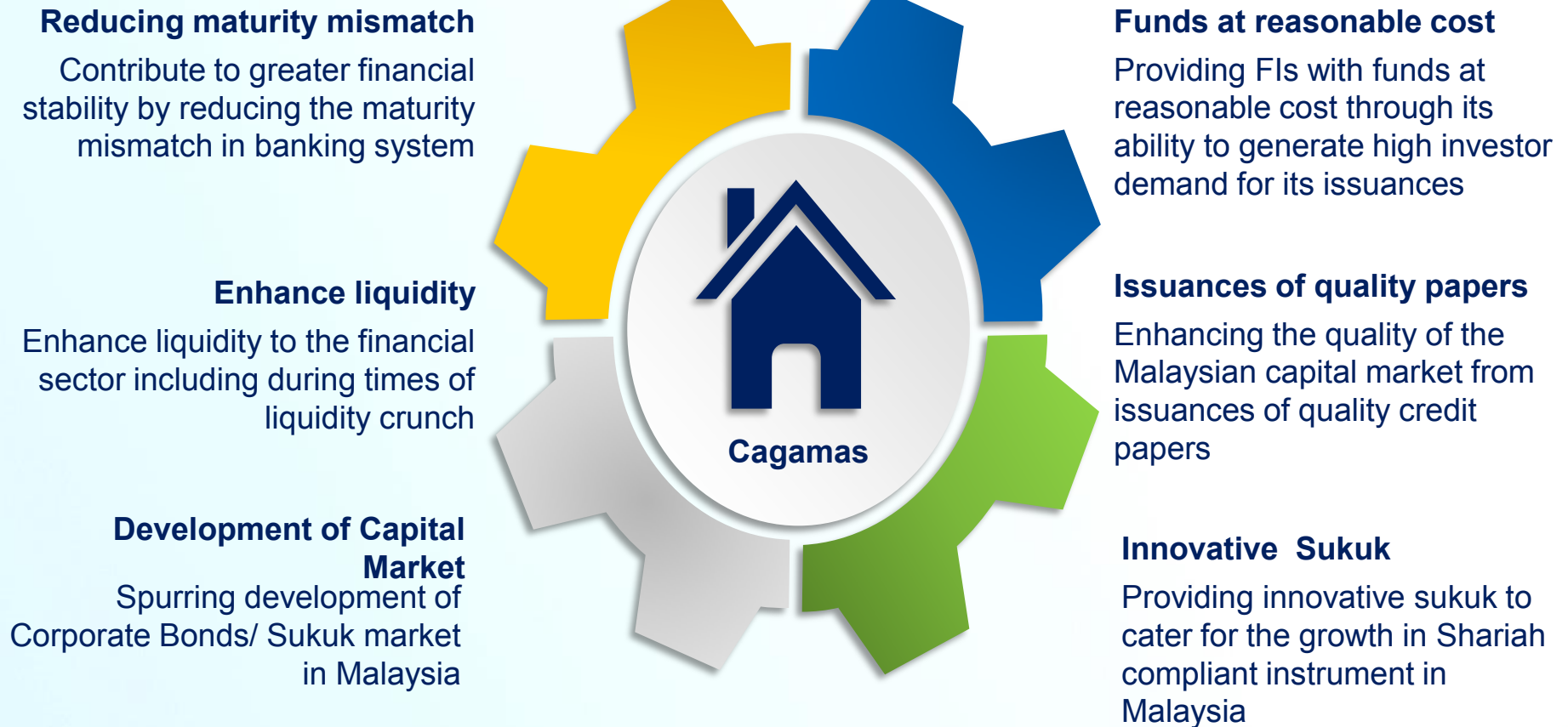


- Issued **MYR312.1 billion** to the financial market and successfully redeemed **MYR272.5 billion** with no default .

- Cumulatively refinance housing loans in the secondary market equivalent to **MYR142 billion** or around **1.9 million houses** .



# Role and Impact





## Housing Finance Solutions

- **Proactive Asset and Liability Management**
- **Initiatives to Diversify Investors Base and Funding Avenues**

# Proactive Asset and Liability Management

## Match-Funding Policy

All assets purchases funded by bonds of matched size and duration

## Duration Gap

The duration gap of the Company shall not exceed 6 months

## Liquidity Gap Limit

Net funding requirement by assessing all cash inflow against outflows

## Liquidity Ratio

Ability to pay off short term debt obligation. Ratios are higher than 1.0

## Approved Interbank Institution

Interbank borrowing and repurchase agreement (REPO) as Approved Interbank Institution

## “Registered Person” under CMSA

Issuance and distribution of its own debt securities as “Registered Person” under CMSA

## FAST Member

Facility Agent of its own debt securities as a FAST member

## RENTAS Member

Intraday credit facility from BNM as RENTAS member

## Strong Shareholders’ Fund (SF)

Strong SF as additional source for liquidity needs

# Proactive Asset and Liability Management

(cont'd)



## Outstanding Bond/Sukuk and Assets

(MYR billion)

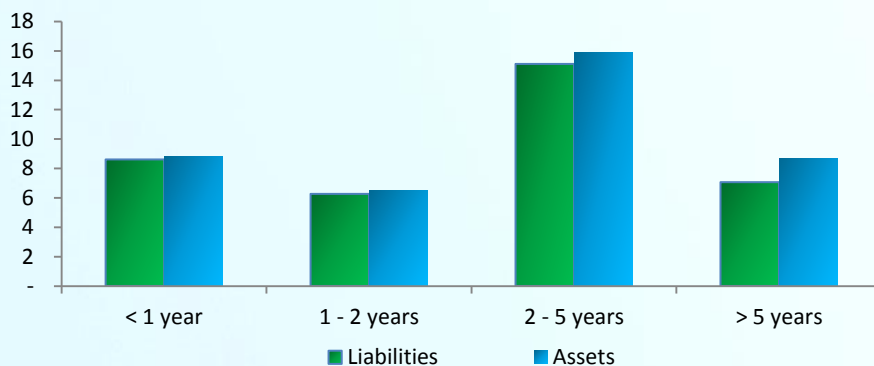


- Cagamas practices a **strict match-funding policy** where all asset purchases are funded by bonds/ sukuk of matching policy size, duration and self-sufficient in cash flows
- Cagamas also imposes a **duration gap limit** to manage liquidity and interest/profit rate risk



## Maturity profile of Bond/Sukuk and Asset

(MYR billion)



- The maturities of the assets and liabilities are also matched as close as possible
- Cagamas also places **limits on maximum shortfall (30% of shareholders' funds)** to meet maturing liabilities

# Broadening Investors Base

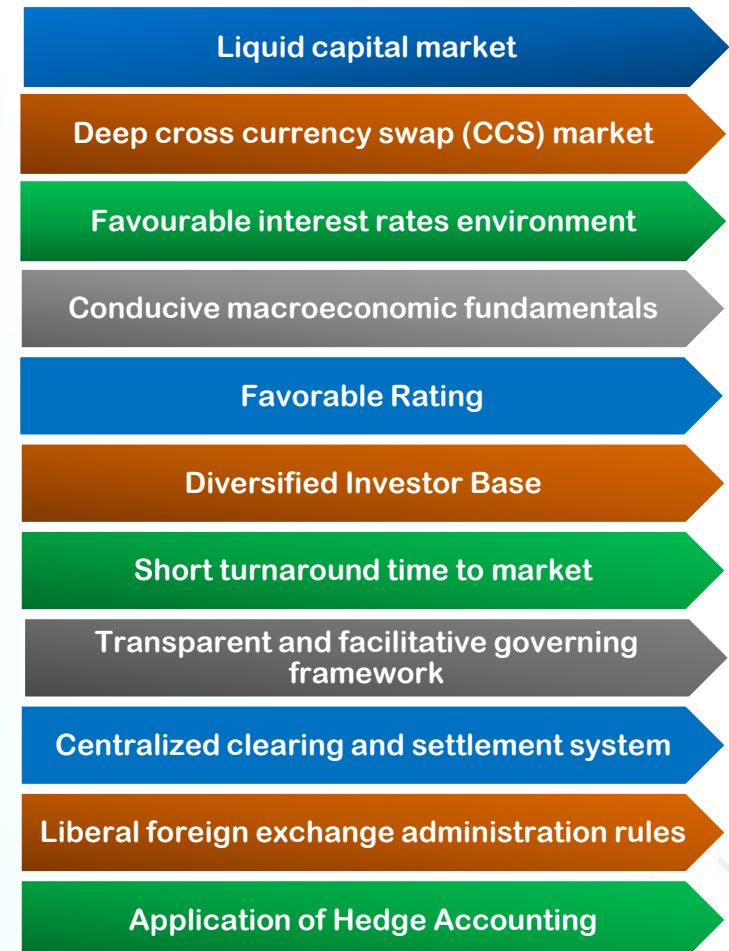


## Why we have to do it?

- Contribute to the development of long-term bond markets.
- Benefit the domestic markets and:-
  - provide an important source of stability and liquidity to financial markets,
  - promote the efficiency of price discovery
  - play a key role in reducing volatility through capital flows to emerging markets
  - stimulate sustainable economic growth
  - less dependence on a dominant investor group whose investment decisions could destabilize markets



## Market Prerequisites for Cross Border Issuance



# Our Initiatives to Diversify Investors Base and Funding Avenue

**1**

**Provision of competitively priced liquidity** vis a vis funding costs via successful issuance of investment grade bonds and sukuk

**2**

**Promote development of bond market** through:

- Issuance of various type of conventional and Islamic debt instruments across tenures in multiple currencies
- Promote efficient and robust price discovery for establishment of a reliable yield curve based on frequently traded bonds and sukuk in the secondary market

**3**

**Promotion of secondary liquidity** for outstanding bonds and sukuk via:

- **Reopening of existing stock**  
Enlarged existing tranche size would encourage trading activity and meet the prerequisite minimum size for inclusion into widely followed local currency bond indices
- **Inclusion of Cagamas bonds in widely followed indices**  
Promote greater visibility of the Company's debt securities particularly among international investors
- **Establishment of Bloomberg and Reuters pricing platform initiative**  
Widen market reach and enhance price dissemination across the globe



# Establishment of EMTN in 2014

(Multicurrency Medium Term Note Programme)



## Programme Objectives

- Widening the Company's investors base to reduce over reliance on single benchmark for pricing
- Diversify funding sources
- Funding of potential purchase of non MYR asset
- Developmental role in deepening and broadening the Malaysian and international debt capital market
- Achieve competitively priced funding from international liquidity pool



## Programme Features

Type	Conventional	Islamic
Programme Size	USD2.5 billion	USD2.5 billion
Tenor	Perpetual	Perpetual
Rating	A3 by Moody's	A3 by Moody's
Issue format	Regulation S only	Regulation S only
Governing Laws	English Law	English Law



# Investor's Profile based on Total Investor

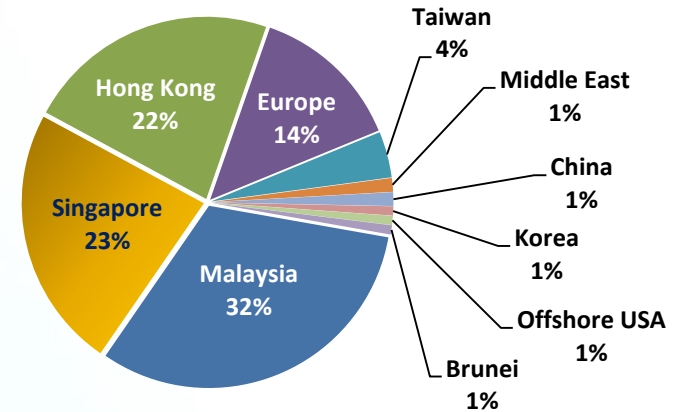
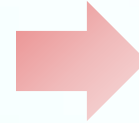
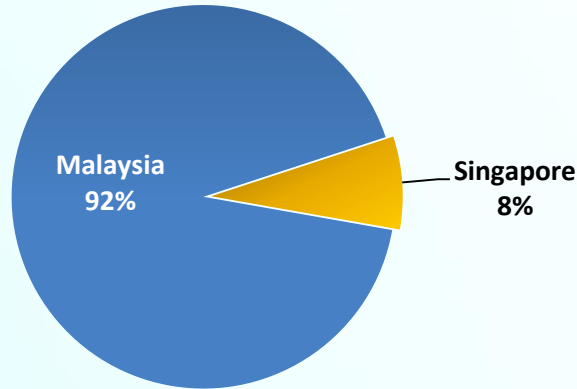


Before Establishment of EMTN

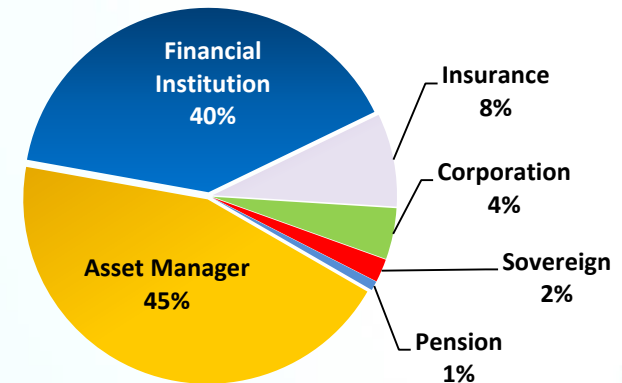
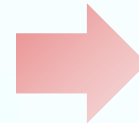
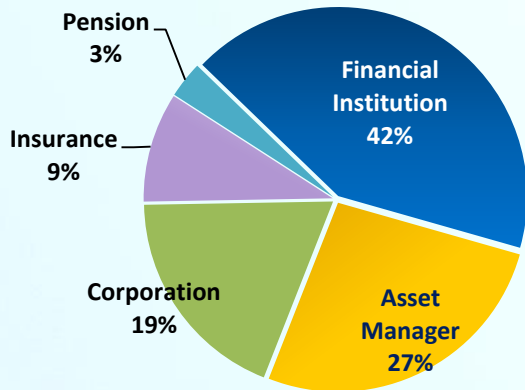


After Establishment of EMTN

By Country



By Type



# Moving Forward

1

To continue to support Government' initiatives in enabling housing access particularly in the area of affordable housing

2

To spearhead and be a catalyst in support of Government' initiatives to enhance the efficiency, functioning and diversification of the Malaysian debt capital market by providing capital market solutions particularly in the area of Islamic finance and environmentally friendly financial instruments

3

To continue to function as intermediary between primary lenders and investors of long term funds. It aims to enhance and support in the stabilisation of financial sector in the country

4

To be the main secondary liquidity facility in the country to support the growth of main contributing sectors to Malaysia GDP i.e. infrastructure/SME

5

To promote and replicate Cagamas business model in South East Asia to complement Malaysian financial institutions expanding abroad

6

To provide risk and capital management solutions to assist financial institutions in light of Basel III requirements



# Thank you

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National Mortgage Corporation of Malaysia