



THE WORLD BANK



Cagamas Berhad

National Mortgage Corporation of Malaysia

Building Sustainable Housing Finance Systems:
Malaysian Experience

Chung Chee Leong

President / Chief Executive Officer

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Private Sector

- Commercial banks (Conventional and Islamic)
- Malaysia Building Society Berhad (MBSB)
- Other Housing Credit Institutions

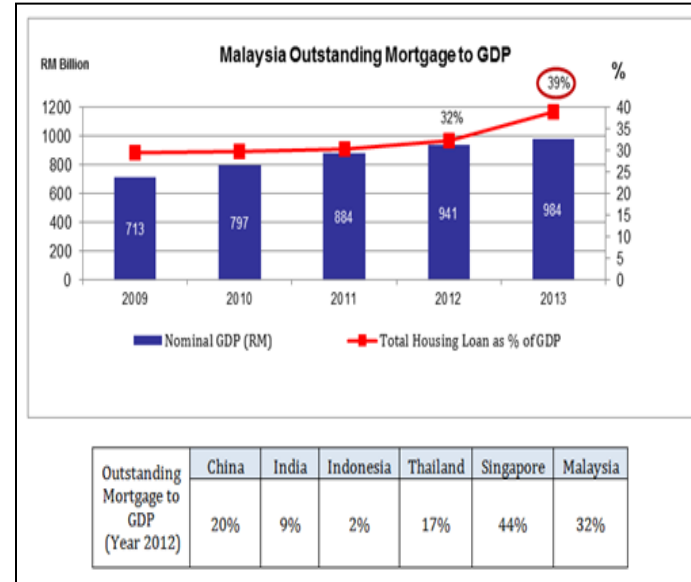
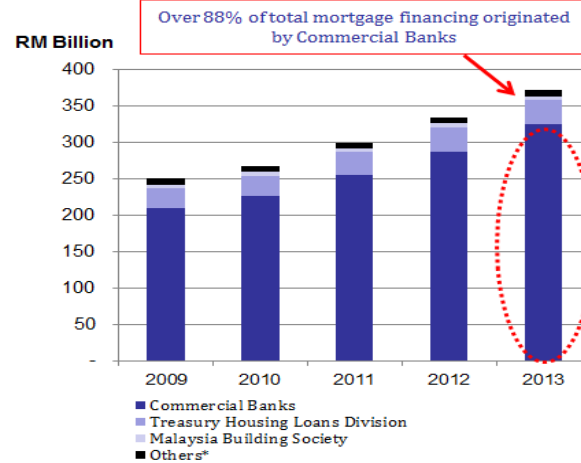
Public Sector

- Housing Loan Division, Ministry of Finance, Malaysia

Secondary Mortgage Corporation

- Cagamas Berhad

Mortgage Outstanding in the Banking System



Outstanding Mortgage to GDP (Year 2012)	China	India	Indonesia	Thailand	Singapore	Malaysia
	20%	9%	2%	17%	44%	32%

- Private sector plays a dominant role in housing development in Malaysia
- Government via its agencies focuses on meeting supply and encouraging home ownership in the middle and lower income group
- Housing loans of the Malaysian banking system have been on a rising trend, well ahead of emerging Asian market economies like China, Thailand and India but falls behind Singapore which has a well established public housing programme in the region.
- Growth of mortgage debt as a significant contributor to Malaysian GDP - **39% in 2013**

* Others inclusive of Bank Kerjasama Rakyat Malaysia Berhad, Borneo Housing Mortgage Finance Berhad, Bank Simpanan Nasional and Sabah Credit Corporation
Source: Central Bank of Malaysia, Annual Report, various years



Strengthening the Housing Finance System



- **The Malaysian Government** continues to introduce new measures to facilitate housing finance system by managing property prices and excessive speculation in the market. Some of the key measures introduced for the past 7 years include:
 - Withdrawal from Employee Provident Fund (EPF) to pay monthly instalments.
 - Higher Real Property Gains Tax (RPGT) and higher minimum purchase price for foreign home ownership.
 - 4 unit limit for bulk purchase by individuals.
- Provision of adequate, affordable and quality houses for all Malaysians in various income levels with the introduction of many affordable housing schemes. Among the programmes that have been launched since 2011:

Schemes	Service/Product Offering
MyHome Scheme (2014)	<ul style="list-style-type: none"> • Government will subsidize low cost houses to maximum of USD9.3k (for houses price RM21.7k)
Perumahan Rakyat 1Malaysia (PR1MA) (2012)	<ul style="list-style-type: none"> • Government to plan, develop, construct and maintain affordable lifestyle housing for middle-income households in key urban centres
My First Home Scheme (2011)	<ul style="list-style-type: none"> • Allows homebuyers to obtain 100% financing from financial institutions (FIs) facilitated by a Mortgage Guarantee Programme (Guarantee provided by Cagamas)

Note : Ringgit Malaysia (RM) translated at RM3.23/USD as at 16 May 2014

- **Central Bank of Malaysia** act as the main regulator for housing finance.
- Areas of regulations include margin of finance for the purchase of 3rd house and above, capital charge on mortgage financing and priority sector lending guidelines
- The regulatory enhancements by Central Bank of Malaysia to ensure Malaysia's housing market remains strong and stable





Cagamas, set up by the Central Bank of Malaysia, commenced operations in 1987 as Malaysia's national mortgage corporation to support the national objective of achieving widespread housing ownership and promoting the long-term development of the domestic debt capital market

- Creation of a secondary mortgage market as a result of a liquidity crunch in the 1980s and public policy objective of a “home ownership democracy”
- Spearhead the development of Private Debt Securities (PDS) market
- The market situation in the mid-1980's:-

Funding mismatch in FIs
resulting in liquidity crunch

FIs were not lending to
homebuyers despite demand

Limited funding source in the
market – no bond market



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

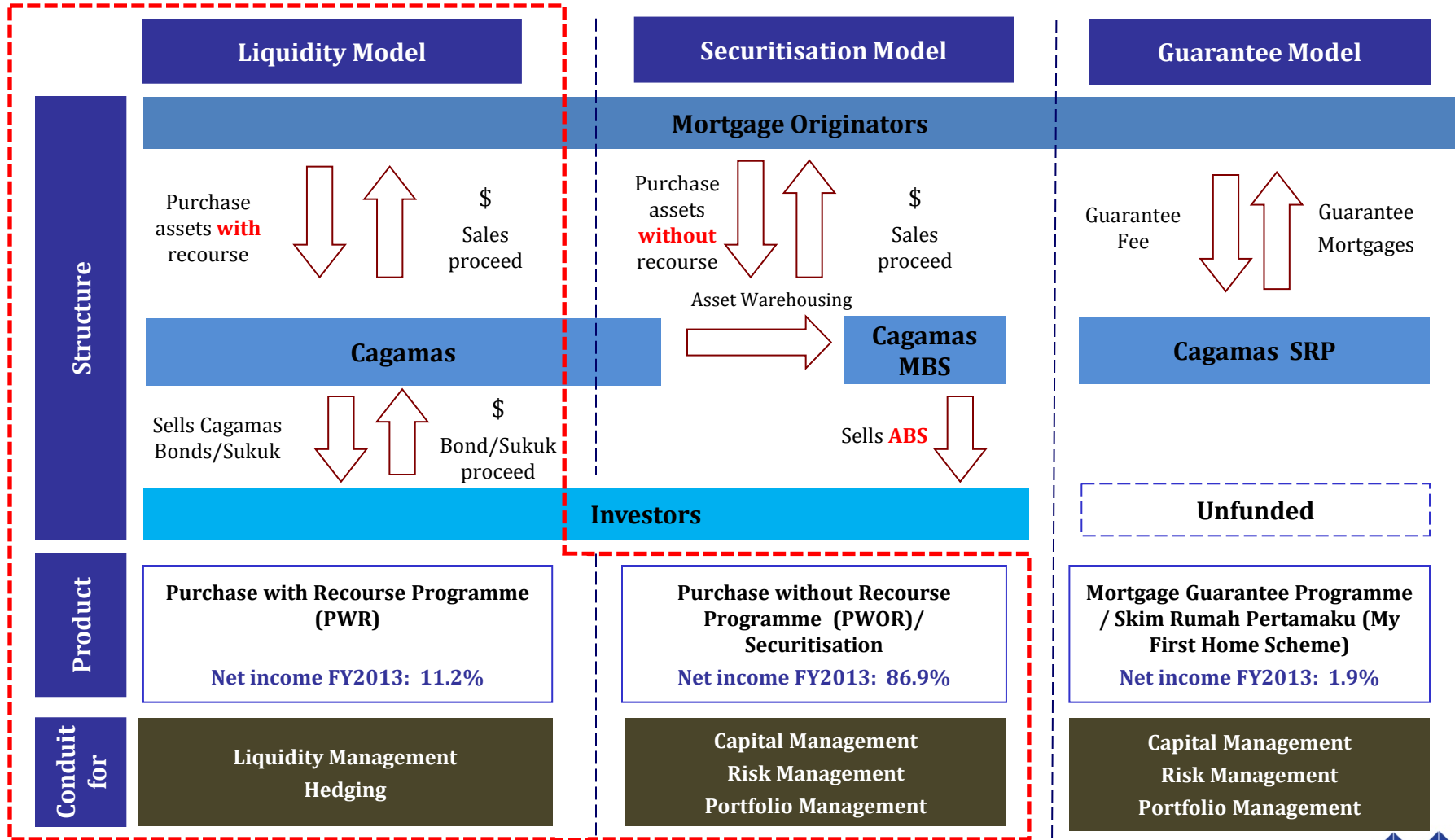
1. Function as intermediary between primary lenders and investors of long term funds; and
2. Take on role of credible issuer of mortgage securities



Cagamas Business Model



Cagamas purchases loans and financing under 2 schemes – Purchase with Recourse and Purchase without Recourse



Cagamas Berhad



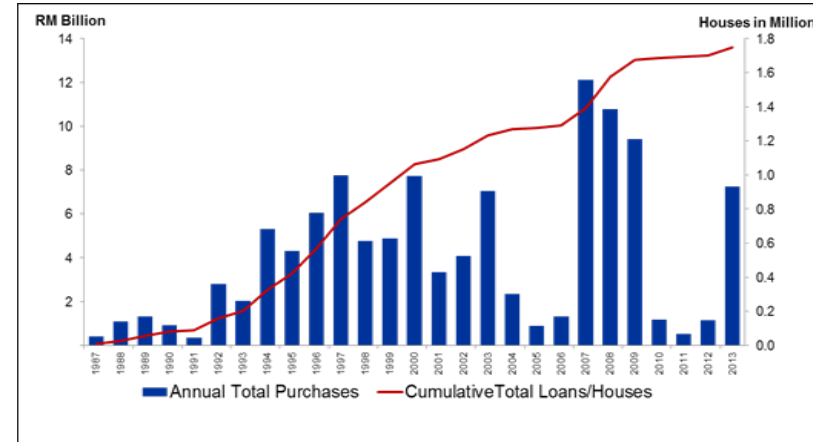
National Mortgage Corporation of Malaysia



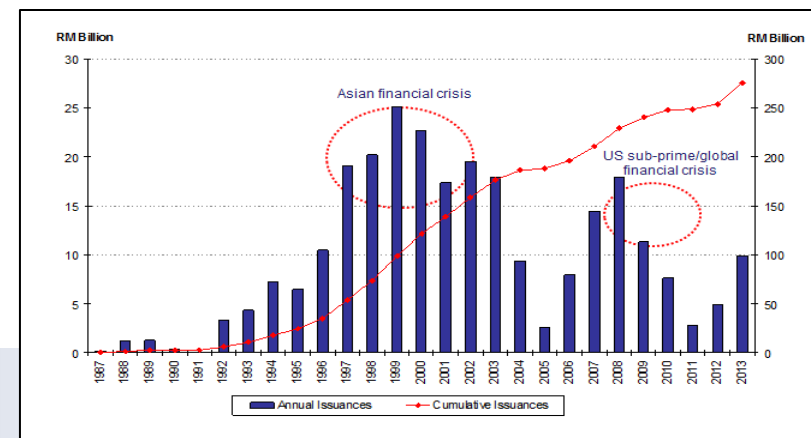
Cagamas has played a key role in the promotion of home ownership and financial accessibility in Malaysia

- Providing liquidity and hedging to mortgage financiers – PWR programme
- 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
- 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)
- Developing innovative structures for mortgage financiers – mortgage guarantee under the My First Home Scheme (SRP) to promote home ownership among young working adults
- Linking the mortgage market to the capital market – development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic

Cumulatively refinanced housing loans in the secondary market equivalent to **USD34 billion** or around **1.75 million houses**



As at end December 2013, Cagamas has provided liquidity of about **USD85.3 billion** to the financial sector





Cagamas Key Success Factors

In its unique way, Cagamas successfully benefited the FIs by providing liquidity management, hedging solutions, capital management, portfolio management and risk management

Solid financial standing & shareholding

- Profitable going concern
- Strong shareholders equity of USD0.78 billion
- High RWCR of over 20%
- Strong shareholders in the form of Central Bank of Malaysia and FIs

Strong management team

- Experienced and dedicated professional team
- Result oriented and performance driven culture
- Robust risk management and corporate governance structure

Support given by regulators

- Implicit and explicit support given:-
- Implicit: Through Central Bank of Malaysia's shareholding in Cagamas
 - Explicit: Through incentives by government and regulators at the initial stage

Conditions for the success of a Secondary Mortgage Market:

- Highly transparent process with details of each mortgage security fully disclosed and registered with the mortgage corporation doing due diligence on the quality of mortgages purchased
- The banks or originators that sell these mortgages retain "skin in the game", with a commitment to replace impaired mortgages (for Purchase With Recourse (PWR))
- Rules and regulations on asset securitization and trading drafted to international standards





Challenges

Excess liquidity in the banking system

- Overall liquidity in the banking system remained ample. No urgency for financial institutions (FIs) to sell assets to Cagamas

Stable interest rate

- A lower interest rate environment will reduce the FI's need to hedge their interest rates

Capital adequacy for FIs remains healthy

- Healthy industry capital ratio- less need to raise or free up capital by FIs

Lower loan growth by the banking sector

- A lower growth rate will further motivate FIs to maintain the loans on their balance sheet as a key performance measure

Downturn in economy

- This scenario may lead to high default rates in the banks

Actions

- Target banks and development financial institutions whose loan to deposit ratios exceed the industry average

- Continue to target FIs which are rated AA or A, given Cagamas' AAA rating as an alternative for attractive funding rates.

- Continue to maintain a prudent and cautious approach in managing its credit risk

- Explore competitive and meaningful financing from new sectors beyond housing.

