



**International
Finance Corporation**
World Bank Group

High-Level GDLN Dialogue on "Key Lessons from the Malaysian Experience on Housing Finance"

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Overview of Malaysia's Housing Policy

- Since independence in 1957, provision of low cost housing (affordable housing) priority of Government in the five-year national plans
- Government Agencies directly responsible for providing housing for poor in urban areas through State Economic Development Corporations and other urban development agencies
- Ceiling price for low cost housing was fixed at RM25,000 per unit for people with household income of less than RM750 per month in 1982. However, in line with price increases, the ceiling price of low cost houses was revised upwards in 2002
- To ensure private sector constructs low cost housing, Government also imposed 30% quota provision of low cost housing in every residential development
- To ensure these houses are secured by the targeted group, Government imposed an open registration system
- No specific quota required for other housing categories

Housing Development in Malaysia

- Private sector played dominant role in housing development
- Except for the first half of 1980's when its share was only 50%, the private sector has accounted for 2/3s to 3/4s of houses developed during the 1970's onwards

Financing of Housing Development

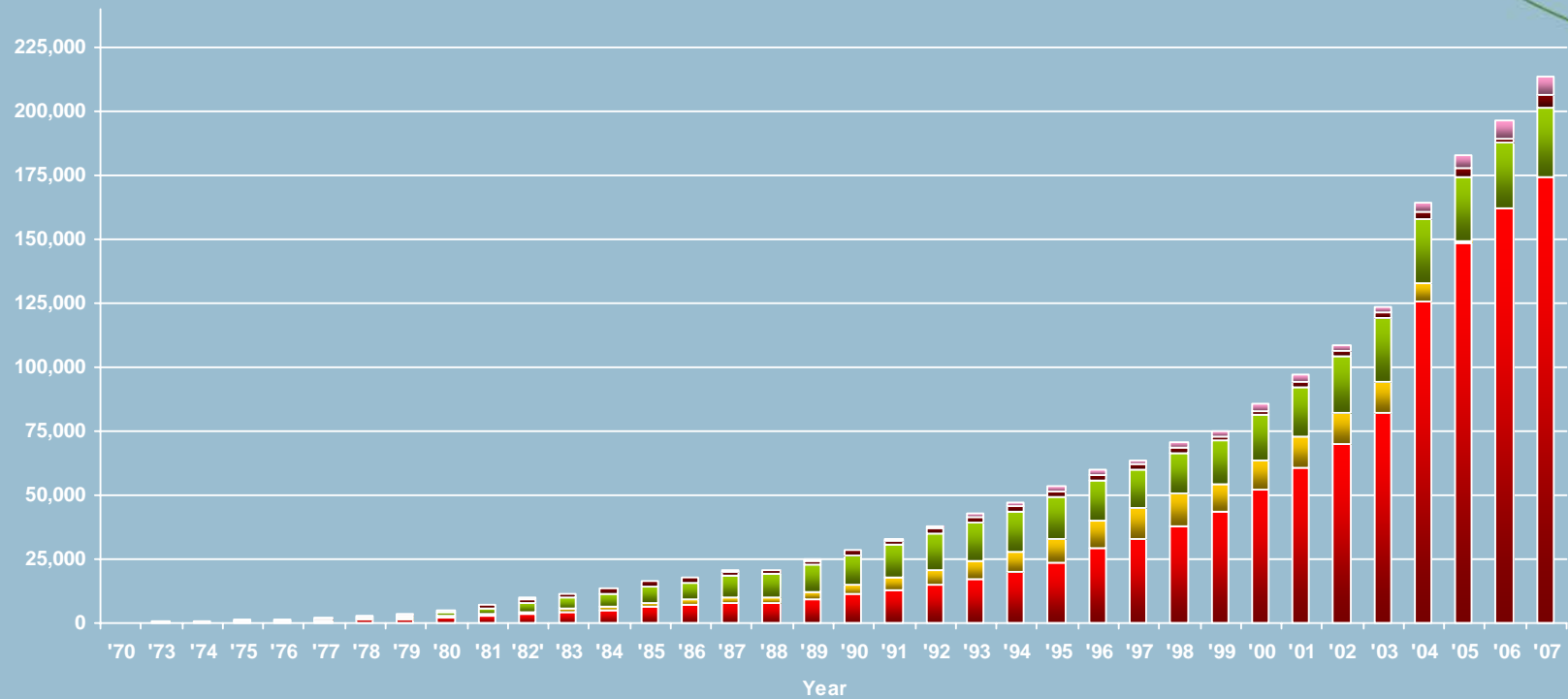
- Bridge finance requirements for property development in Malaysia are lower as pre-selling of houses is permitted and buyers are required to meet the pre-specified progress payments in accordance with the Sales and Purchase Agreement
- Since 1990's developers required to open a dedicated bank account for each housing scheme and all progress payments have to be banked into this account
- The project account system implemented in the 1990's protects house buyers from any potential misuse or misapplication of funds by a developer, which was not uncommon in the past
- Financing of property development has never been a problem in Malaysia

Housing Finance in Malaysia

- Key players are the banking industry, the Government of Malaysia and to a lesser extent building societies
- In 1960's and up to early 1970's, Malaysia Building Society Berhad (MBSB) was the major provider of housing finance
 - 1960 - 96.8%
 - 1970 - 58.1%
- By 1975, MBSB's share shrunk to 16.9% and further dipped to below 10% by 1984. Today its share is 2%
- In 1970's, shift in the players – commercial banks and finance companies emerged as providers of housing finance
- Treasury's Housing Loans Division (THLD) subsidized loans to civil servants since 1972
- Commercial banks' and finance companies' market share was 26.3% in 1970. Today – 82%

Major Sources of Housing Finance

RM million



■ Commercial Banks
 ■ Finance Companies
 ■ Government
 ■ Building Societies
 ■ Others

Role of Government in promoting Housing Finance

Role of Employees Provident Fund in Promoting Housing

- Since early 1980's individuals can withdraw from part of their account in the Employees Provident Fund for the purchase of a house or redemption of an existing housing loan with a financial institution
- Effective 1 January 2008, contributors can make monthly withdrawals from their account to make monthly payments on housing loans

Other Measures by Government to boost housing, particularly affordable housing

- Exemption from Real Property Gains Tax (2006)
- Full stamp duty exemption on all documents, including loan agreement for the purchase of a low cost house (2009)
- For purchase of medium cost houses up to RM 250,000 - 50% stamp duty exemption on loan agreement in addition to 50% exemption on Sale & Purchase Agreement (2009)
- Setting up of a RM50 million fund to provide guarantees to end-financiers for house purchasers without fixed incomes to avail housing loans (Budget 2008)

Mandated Lending for Housing by Central Bank

- Mandated lending to priority sectors including affordable housing was introduced by the Central Bank in 1976
- Aimed at increasing the access of credit for affordable housing as well as providing them with subsidized access to such credit
- Interest ceilings were imposed for lending for houses costing RM100,000 and below (1.75% above BLR or 9% whichever is the lower)
- Guidelines were issued by the Central Bank to the banking system to finance a certain number of units of affordable housing at the subsidized rates

The Mortgage Market (Prior to setting up of Cagamas)

- Characteristics of housing loans in Malaysia
 - granted on floating rate basis
 - have maturities ranging from 10-15 years
 - banks reluctant to lend to mandated housing sector (houses costing RM100,000 and below)
 - banks selective in granting housing loans – no matching funds
 - lack of data on default rates, prepayments etc.

Cagamas Berhad, the National Mortgage Corporation

- Incorporated in December 1986 as a public limited company to operate as a private sector enterprise
- Commenced business in October 1987
- Shareholders
 - single largest shareholder is BNM (20%)
 - financial institutions (80%)
- Cagamas' specific role
 - to encourage home ownership and develop the private debt securities (PDS) market in Malaysia

Cagamas' Role: Encouraging Home Ownership and Developing the Bond Market

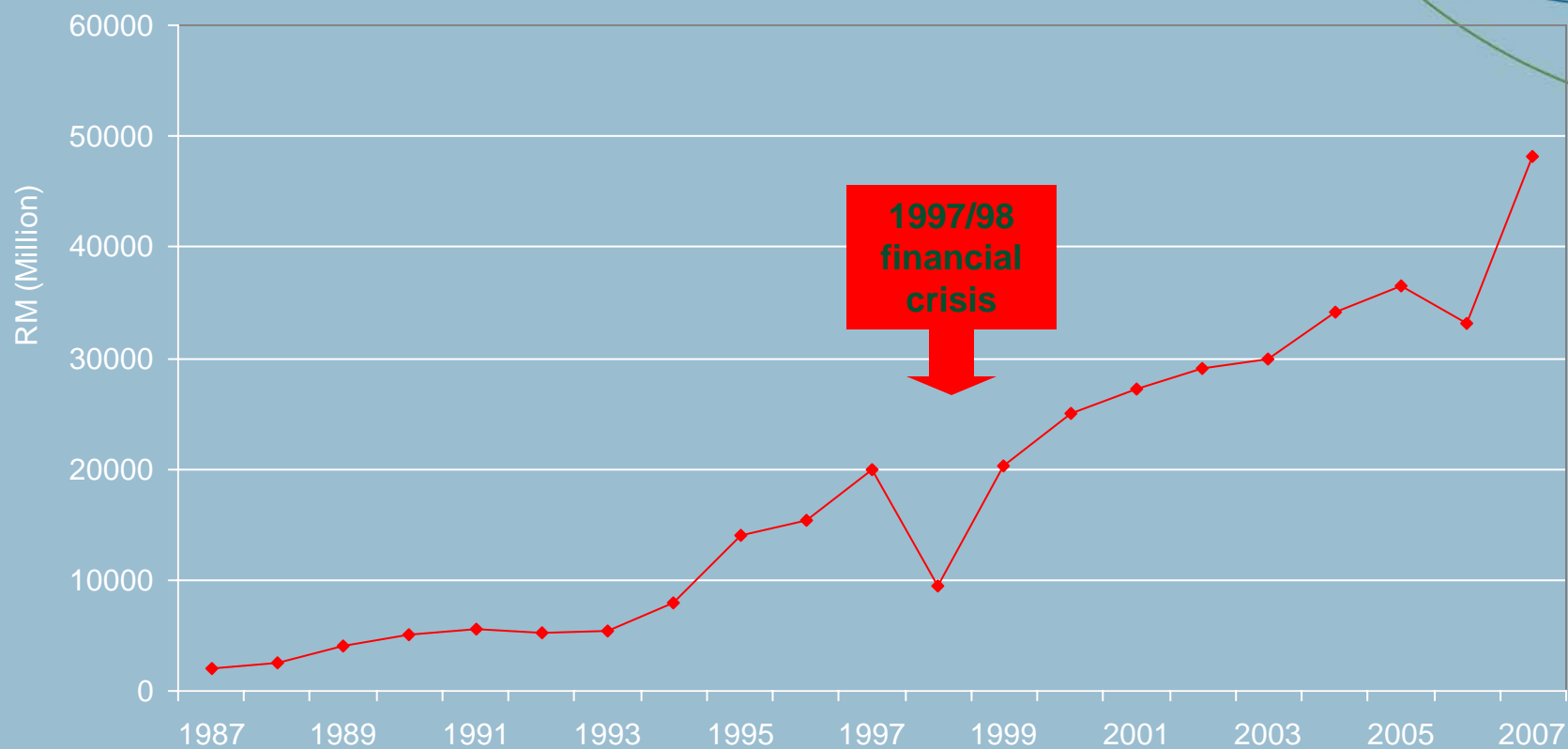
- Provide liquidity to the primary lenders to grant more loans
- Narrow the gap between the maturity structure of the housing loans and the source of funds
- Develop the local bond market

Impact of setting up of Cagamas

Impact on Housing Finance with the set up of Cagamas

- Important source of funding the mortgage market. Graph on Cagamas market share illustrates this. Cagamas market share at end 1997 – 31% as against 10% at end 1989
- Primary lenders assured of renewal funding at the end of review period
- Increased competition amongst banks – lower mortgage rates and longer maturities
- Increased product range – in addition to floating rate mortgages, banks offered fixed rates for the initial 1-5 years and floating rates thereafter as an alternative to pure floating rate mortgages
- Banks willing to lend to mandated housing sector (affordable housing)
- During the financial crisis, Cagamas successfully provided liquidity to the banks thus avoiding a credit crunch

Approved Housing Loans: Banking Sector

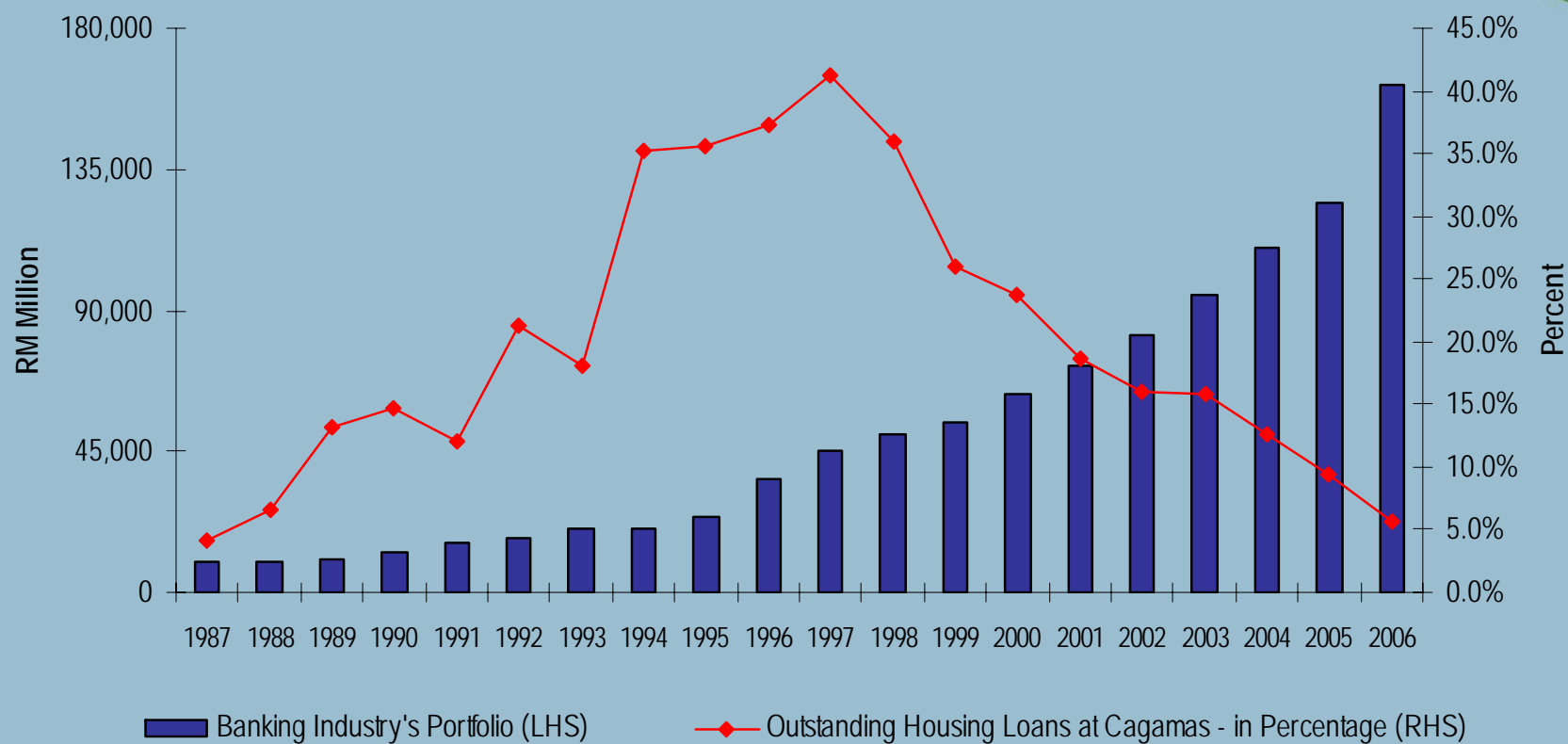


Housing Credit Outstanding¹

Primary Lenders	As at end							
	1988		1998		2004		2007	
	RM (Mil)	%	RM (Mil)	%	RM (Mil)	%	RM (Mil)	%
Banking System ²	10,045	47.7	50,684	72.0	109,644	77.3	174,268	81.6
Treasury Housing Loans Division	8,968	42.6	15,794	22.4	25,930	18.3	26,822	12.6
Malaysia Building Society	1,285	6.1	1,436	2.0	1,753	1.2	4,413	2.1
Borneo Housing Mortgage Finance	466	2.2	533	0.8	705	0.5	716	0.3
Sabah Credit Corporation	162	0.8	269	0.4	238	0.2	190
Bank Rakyat	129	0.6	717	1.0	2,508	1.8	4,475	2.2
Bank Simpanan Nasional		0.0	1,006	1.4	1,059	0.7	2,645	1.2
Total	21,055	100	70,439	100	141,837	100	213,529	100

1. Includes loans sold to Cagamas
2. Includes commercial banks and finance companies

Cagamas' Market Share of Housing Loans



Impact on Bond Market by Setting up Cagamas

- Developing and deepening bond market thereby establishing an effective link between the primary mortgage market and the capital market (see Graph in next Slide)

Capital Market Debt Securities

Percentage

