

Workshop on Yangon Housing Market Study
23rd July 2018, Myanmar

DEVELOPMENT OF MALAYSIA'S HOUSING FINANCE MARKET

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President/Chief Executive Officer





HOUSING FINANCE MARKET IN MALAYSIA

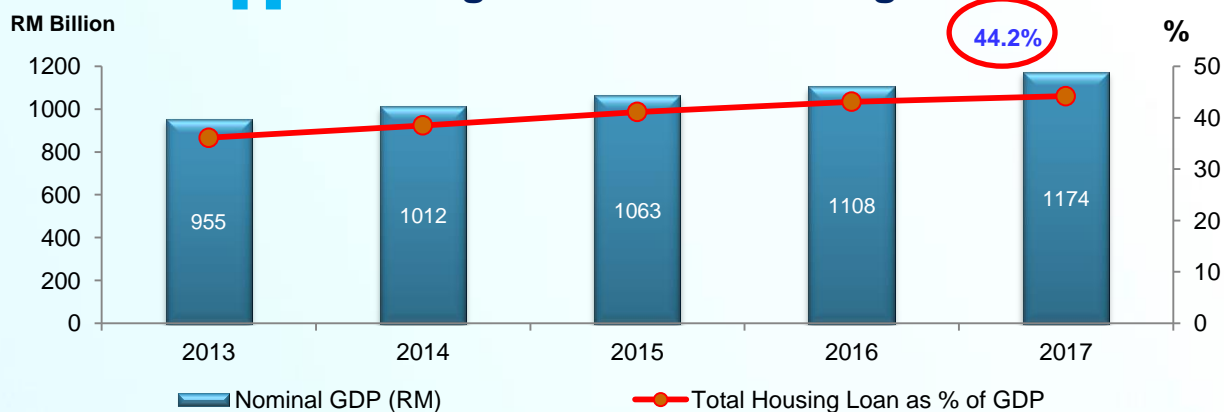
Housing Finance Market

Mortgage Originators in Malaysia:-

Private sector plays a dominant role in development in Malaysia

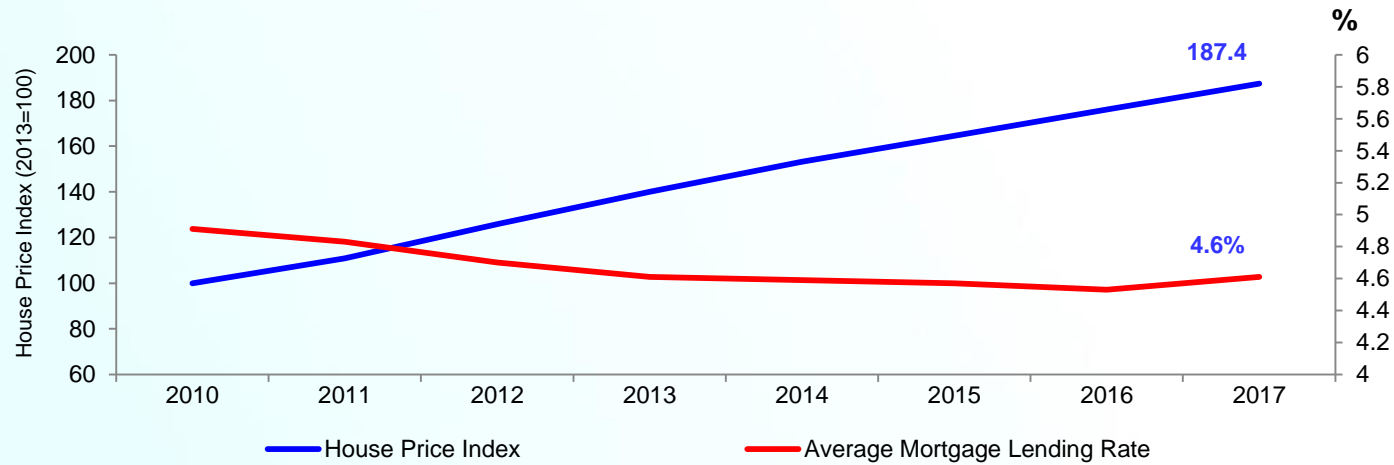
Private Sector	Public Sector	Secondary Mortgage Corporation
<ul style="list-style-type: none"> Commercial Banks (Conventional and Islamic Banks) Development Financial Institutions Others : Insurance Companies, Co-operatives, Developers 	<ul style="list-style-type: none"> Public Sector Housing Financing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

Housing Loans Outstanding to GDP:-

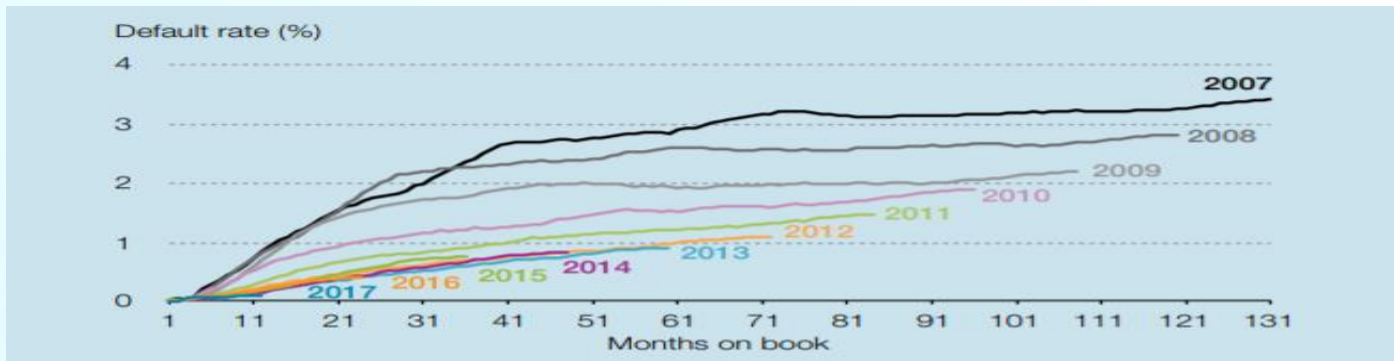


Housing Finance Market (cont'd)

House Price Index and Mortgage Rate :-

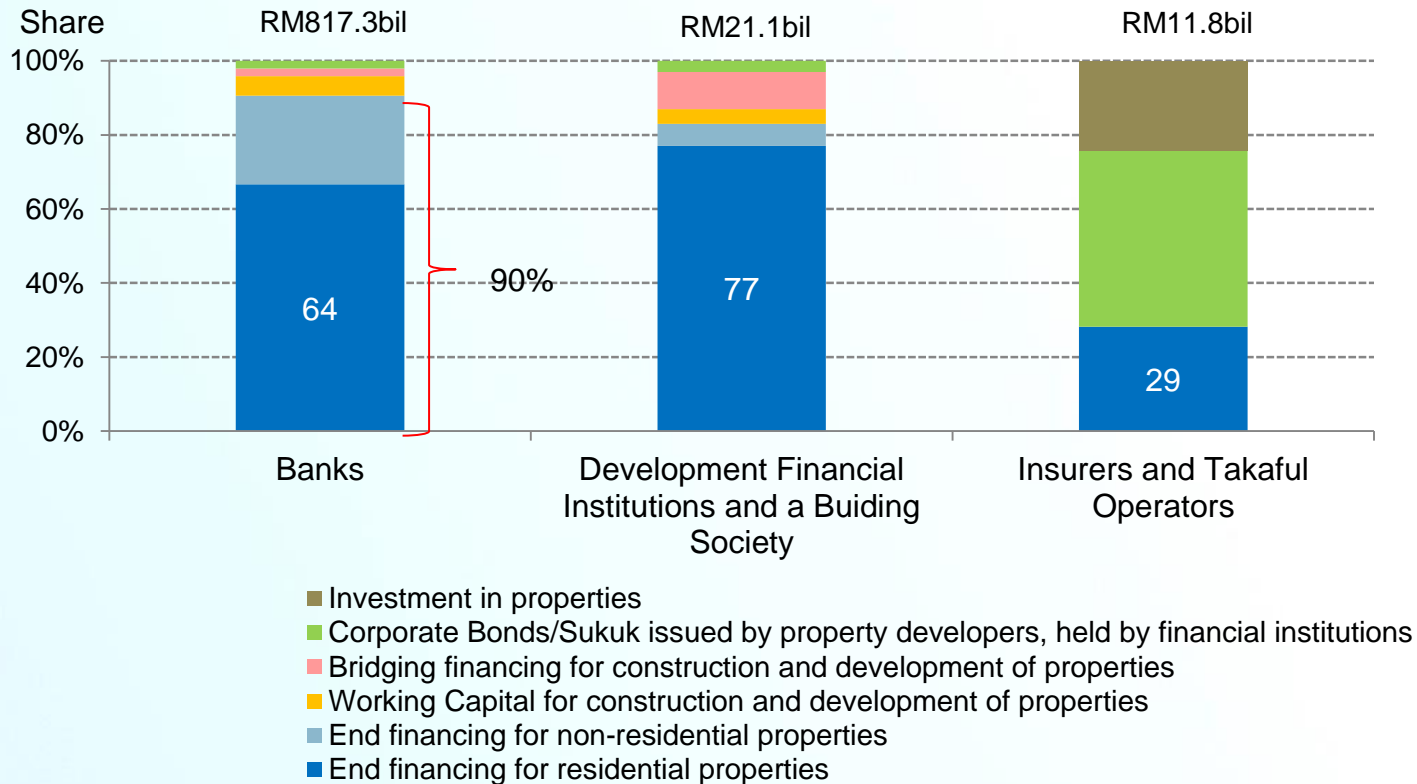


Default rates of housing loans improved since 2007:-



Financial Institutions' Exposures to the Property Market

- Banks remained the largest lenders to the domestic property market
- As at end 2017, out of RM817.3 billion of banks' exposures* to the property market, 90% is related to the purchase of residential and non-residential properties



*As at end 2017, banks' total exposure is at RM 1,584 billion. Source: Central Bank of Malaysia

Characteristics of Housing Loans in Malaysia

	In the 80's	Now
Tenure	10-15 years	Max 35 years
Interest Rate	Fixed (8% -12% p.a) Monthly rest	Floating - Daily rest <u>or</u> Teaser rate for first few years
Repayment	Amortising	Amortising <u>or</u> Step-up Repayment Schedule
Structure	Conventional	Conventional and Islamic
LTV	≈ 80%	≈ 90%
Auction Process	2-3 years	Within 1 year
Special Housing Loans	Quota for individual/banks for housing loans below RM25K	No quota

Home Ownership: Government's Policy

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

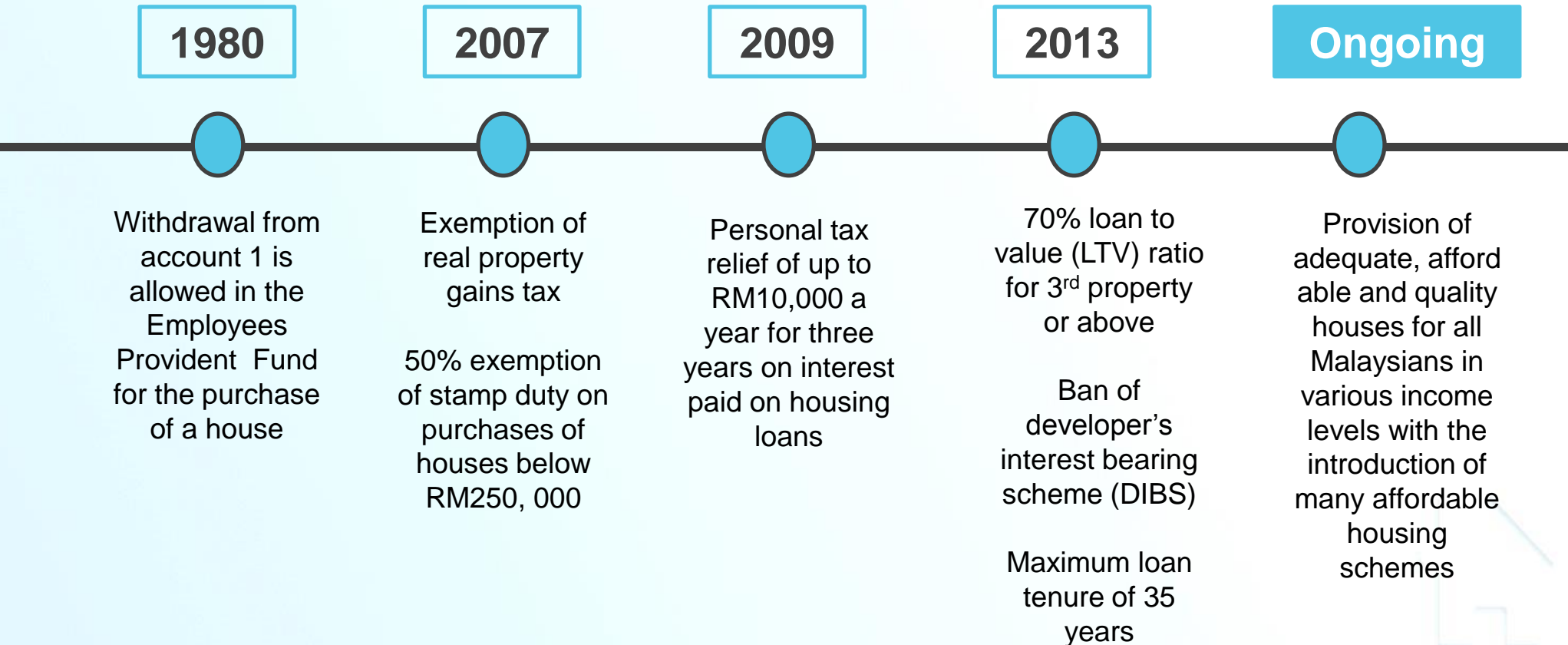
- especially among the lower and middle income groups



Measures Introduced by the Government

Over the years, the Government continues to introduce new measures to facilitate the housing finance system and also to curb house price speculations.

Among the measures introduced :



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"> ▪ 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 RM300,000(USD75,000)
My First Home Scheme	<ul style="list-style-type: none"> ▪ Guarantee scheme that enables applicants below the age of 40 years with monthly income of up to RM5,000 (USD1,250) - for single and RM10,000 (USD2,500) – for married couple to purchase their first home of up to RM500,000 (USD125,000).
Youth Housing Scheme	<ul style="list-style-type: none"> ▪ Financing facility with guarantee facility to assist single or married youths between 21 to 45 years old, with income of up to RM10,000 (USD2,500) to own their very first home. The Government is also to aid monthly instalments of RM200 (USD50) per month for a period of 2 years to help buyer to pay for the instalment or interest of the mortgage.
Housing Special End Financing Scheme	<ul style="list-style-type: none"> ▪ Financing facility to assist applicants above 21 years old to purchase homes with flexible loan repayment.

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



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.



PRE- ESTABLISHMENT OF CAGAMAS

The market situation in 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



Technical Committee Set Up

1980

- A Committee set up by Central Bank of Malaysia (BNM) recommended the establishment of a secondary mortgage market
- The proposal was not implemented because of the trend of interest rates at the time not conducive to the introduction of a secondary mortgage market



February 1986

- A new Technical Committee was set up to:
 - explore the feasibility of a secondary mortgage market
 - propose viable instruments for such a market
 - determine the essential requirements for setting up of an institution to act as an intermediary between primary lenders and investors



Recommendations of the Technical Committee on the Development of the Secondary Mortgage Market

To achieve the national objective of promoting house ownership, the potential buyers of houses need to have access to housing loans at reasonable cost. The primary lenders, i.e. the financial institutions which provide the mortgage loans to the house buyers, can continue to provide such loans only if they themselves have access to funds at an economical cost and for a longer tenure than their usual short-term deposits. One way to cater for the needs of the financial institutions is to make their housing loans self-financing or be the basis for raising longer term funds.

Thus, on 20 November 1986, the Technical Committee on the Development of the Secondary Mortgage Market, comprising representatives from the Association of Banks, Association of Finance Companies, Association of Merchant Banks and Bank Negara Malaysia (the Central Bank of Malaysia), proposed that a mortgage corporation should be set up as a public limited company in Malaysia. The main function of the corporation is to buy housing loans from the primary lenders and, based on its holdings of such loans purchased, to issue debt securities to finance the purchases.

Recommending that it be owned by banks, finance companies and Bank Negara Malaysia, the corporation would have the credit standing to borrow large sums at lower cost than the primary lenders could do on their own.

The bonds issued by the mortgage corporation, known as Cagamas Berhad, would become the medium for trading in a secondary mortgage market through which long-term investors and investors in fixed-income securities could channel their investment funds. To attract the investors and to minimise the costs of issue and transfer of the bonds, certain regulatory and legislative changes and fiscal advantages would have to be considered.

It was recognised that the measures proposed by the Technical Committee would help to add depth and sophistication to the Malaysian capital market and assist in the growth of home ownership. Hence, the incorporation of Cagamas Berhad as the National Mortgage Corporation in December 1986.

The move to a Secondary Market

- As a direct result of the needs of the market, Cagamas Berhad was incorporated in December 1986 as the National Mortgage Corporation with the following objectives:-



1

Alleviate the liquidity problem and reduce funding mismatch within the banking sector

2

Reduce the risk of unfavorable changes in the difference between the cost of funds of the primary lenders and the rate of return on their housing loans

3

Spearhead development of the private debt securities market



ESTABLISHMENT OF CAGAMAS

Company Overview

Entity Name

Cagamas Berhad

Shareholders

Bank Negara Malaysia (20%)

Commercial and Investment Banks (80%)

Credit Rating

A3 Stable (Moody's) / AAA (RAM) / AAA (MARC)

Date of Incorporation

2 December 1986

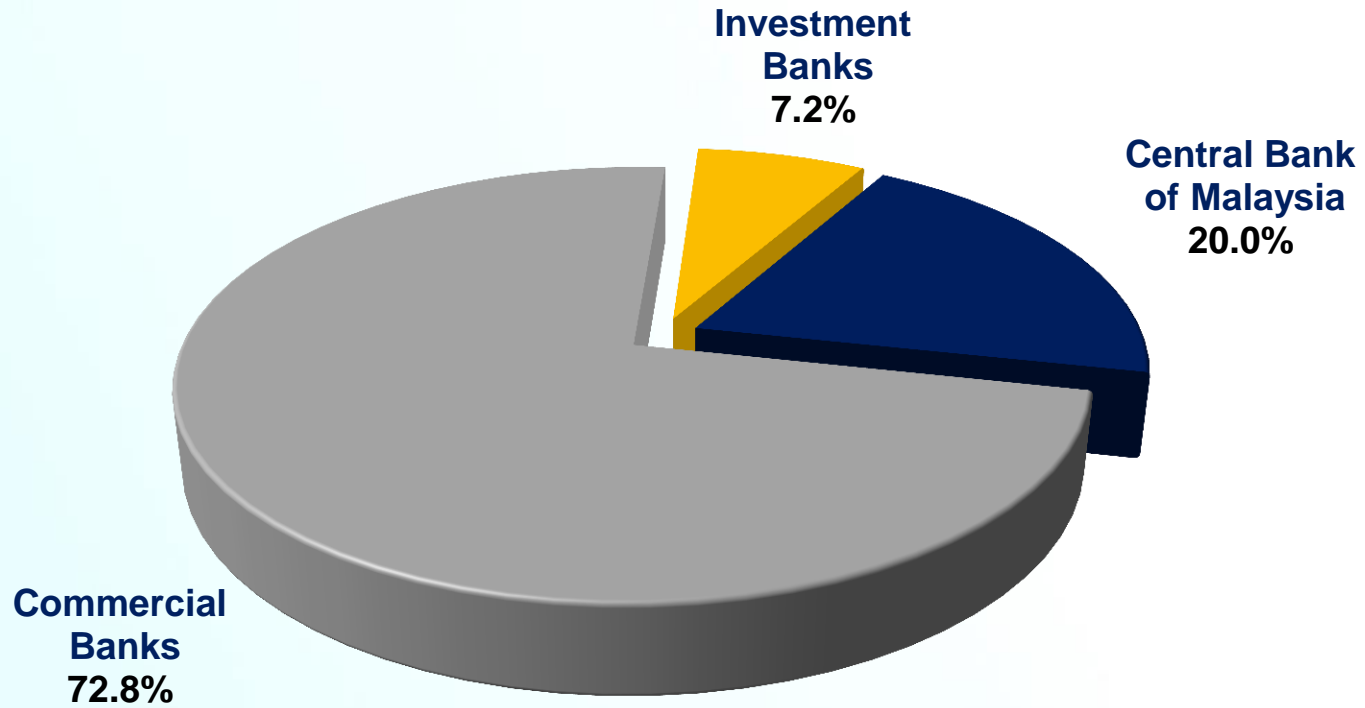
Objectives

- Established by Bank Negara Malaysia to support the national agenda of increasing home ownership and promoting the development of Malaysia's capital markets
 - Development and promotion of Islamic finance within Malaysia
-

Business Model

- Through the issuance of conventional bonds and sukuk, Cagamas funds the purchase of housing loans and house financings through its Purchase With Recourse (PWR) and Purchase Without Recourse (PWOR) schemes.
 - By doing this, Cagamas is able to provide liquidity to financial institutions at a competitive cost, encouraging them to provide additional housing loans and house financings to new applicants at an affordable cost.
 - The PWR and PWOR schemes have now been expanded to include other loans and financings such as SME loans, infrastructure financing and industrial hire purchase / leasing receivables.
 - Guarantee housing loans and home financings under Mortgage Guarantee Programme (MGP)
-

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

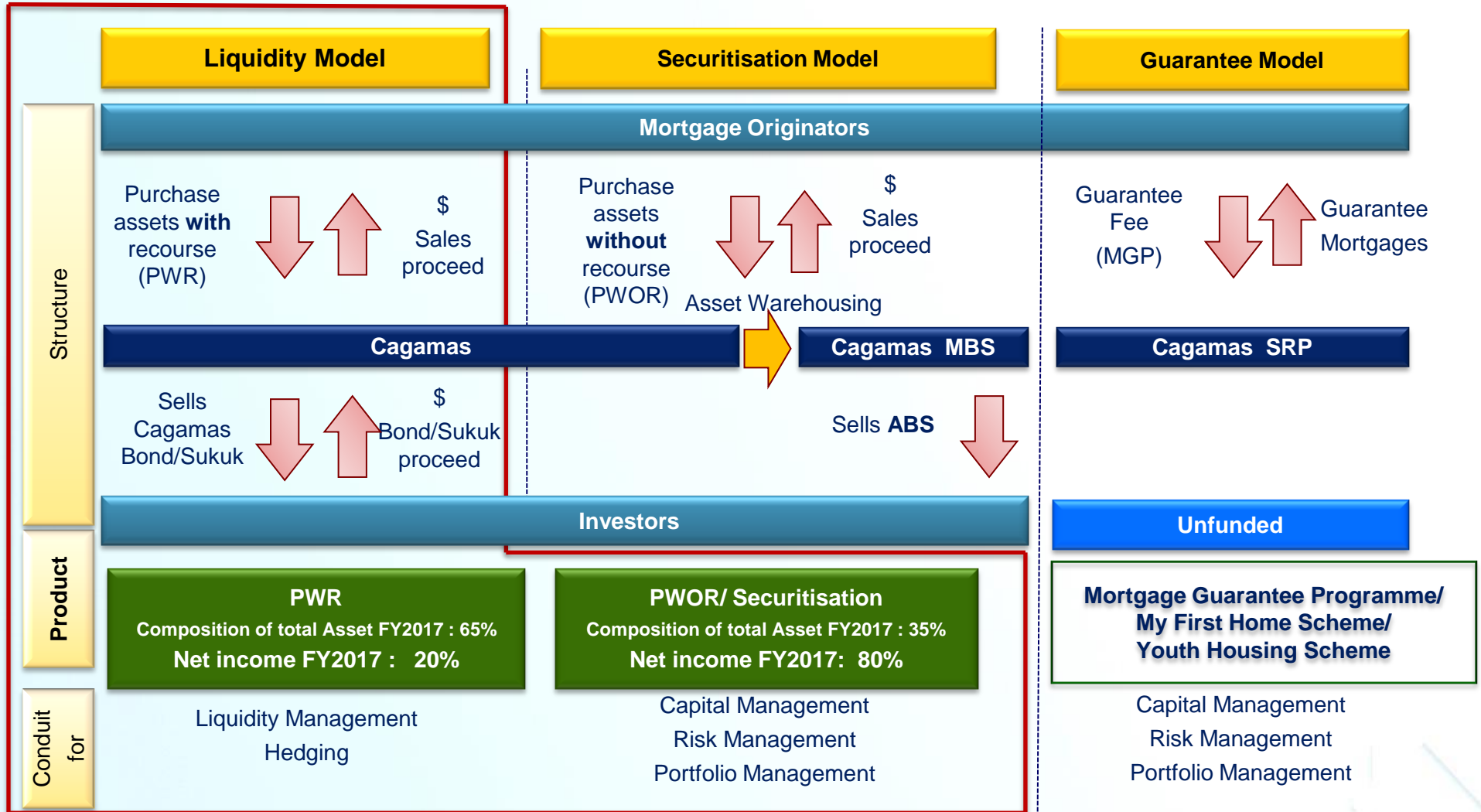
- 10% risk weight under the Risk Weighted Capital Ratio framework
- Class-1 liquefiable assets status under the liquidity framework
- 4% yield slippage under the liquidity framework
- Exempted from Single Customers Credit Limit (SCCL)
- Mode of primary issuance is through Principal Dealers' network
- 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 to the Market

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

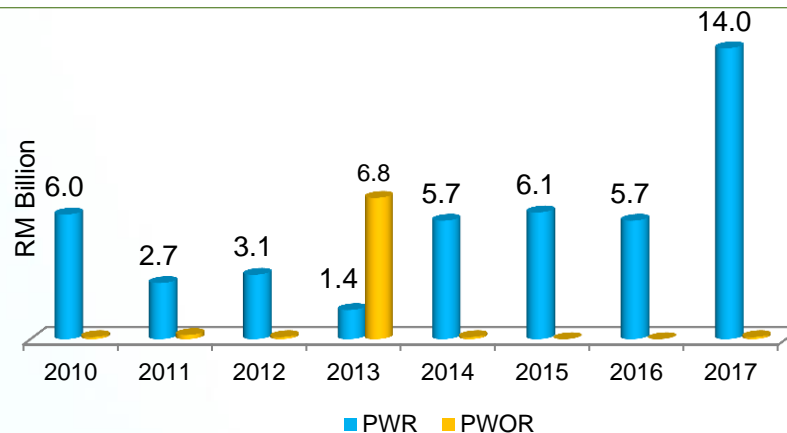
Linking the mortgage market to the capital market – development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic





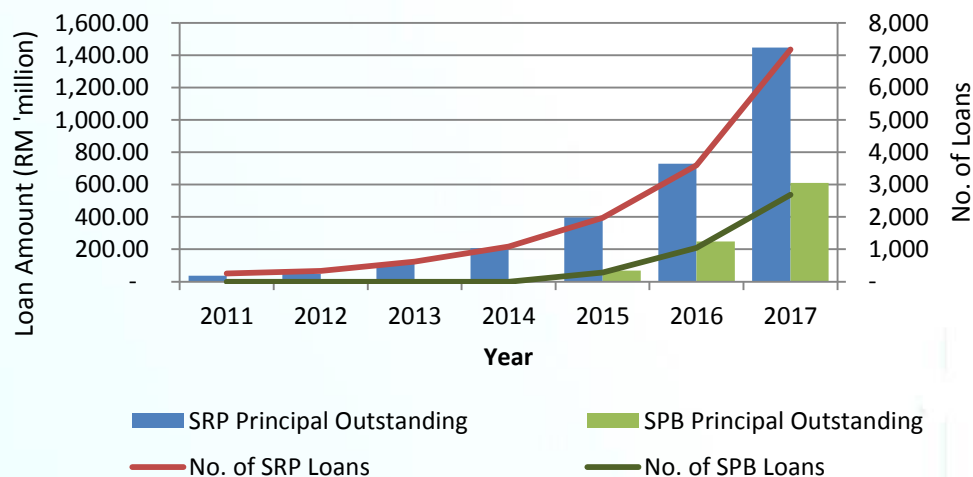
Asset Purchased of PWR/PWOR

- 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.



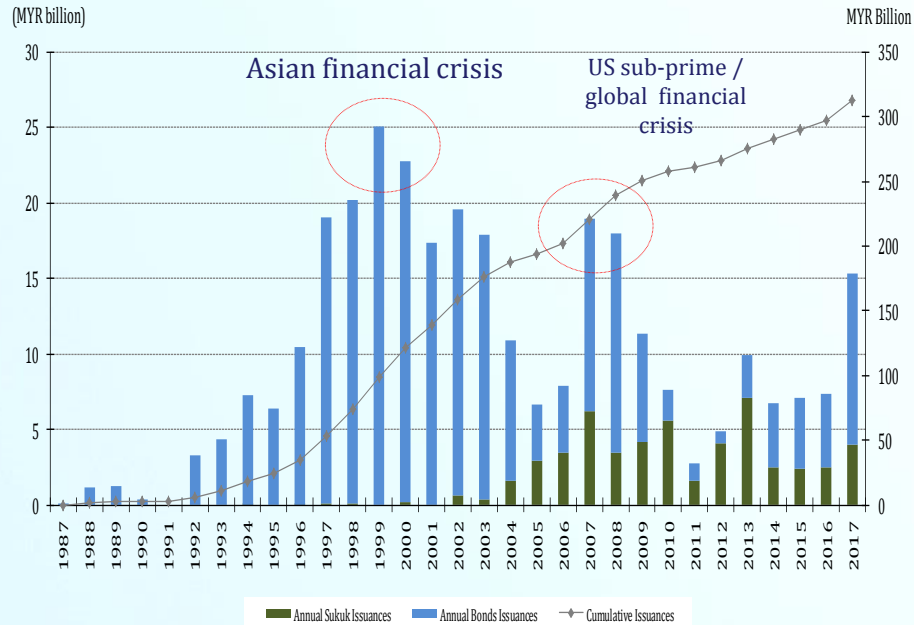
Mortgage Guarantee Facility by CSRP Berhad

- 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

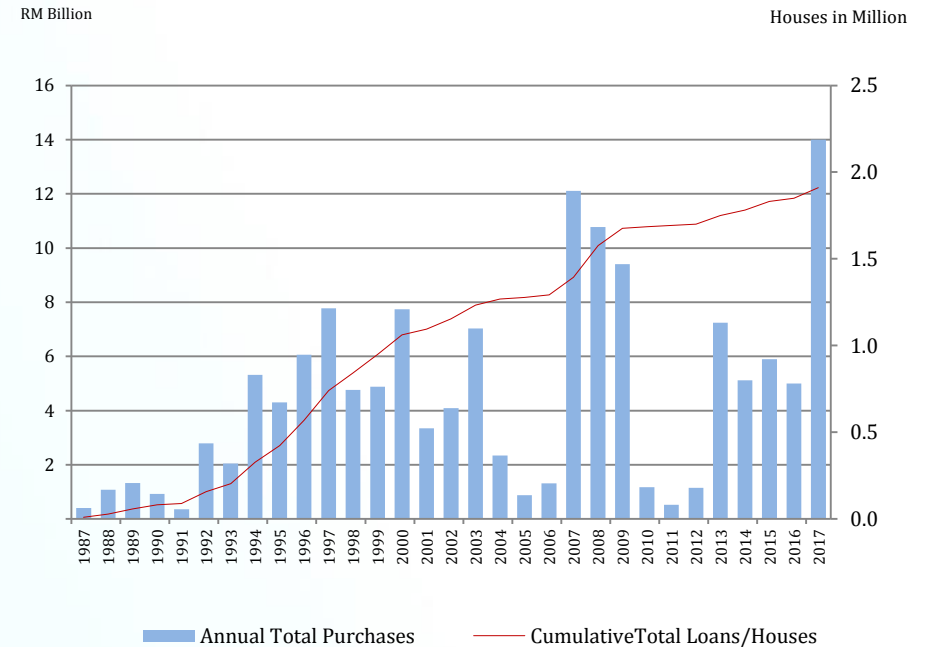


Purchases and Issuances

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** .



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

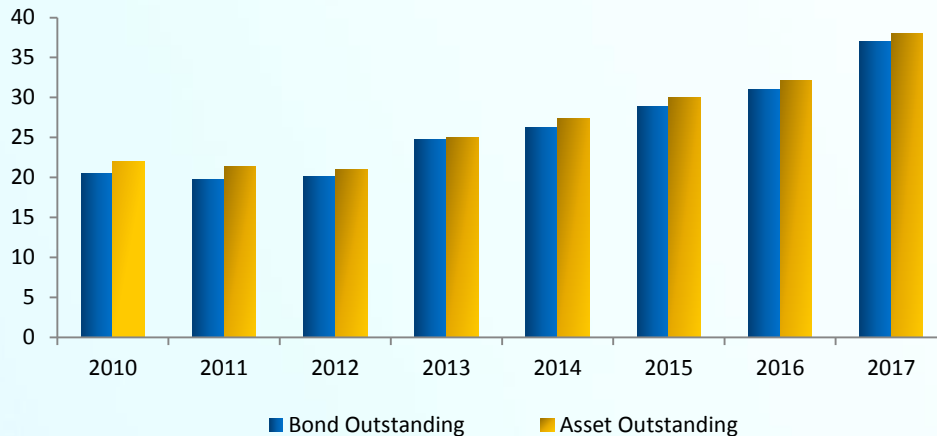
Proactive Asset and Liability Management

(cont'd)



Outstanding Bond/Sukuk and Assets

(MYR billion)

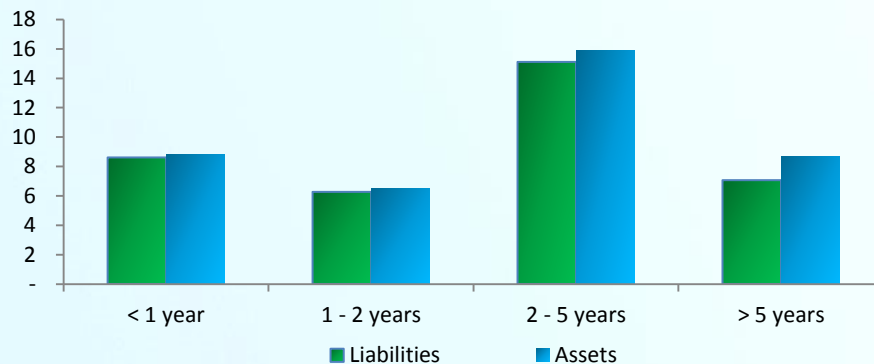


- Cagamas practices a **strict match-funding policy** where all asset purchases are funded by bonds/ sukuk of matching policy size, duration and self-sufficient in cash flows
- Cagamas also imposes a **duration gap limit** to manage liquidity and interest/profit rate risk



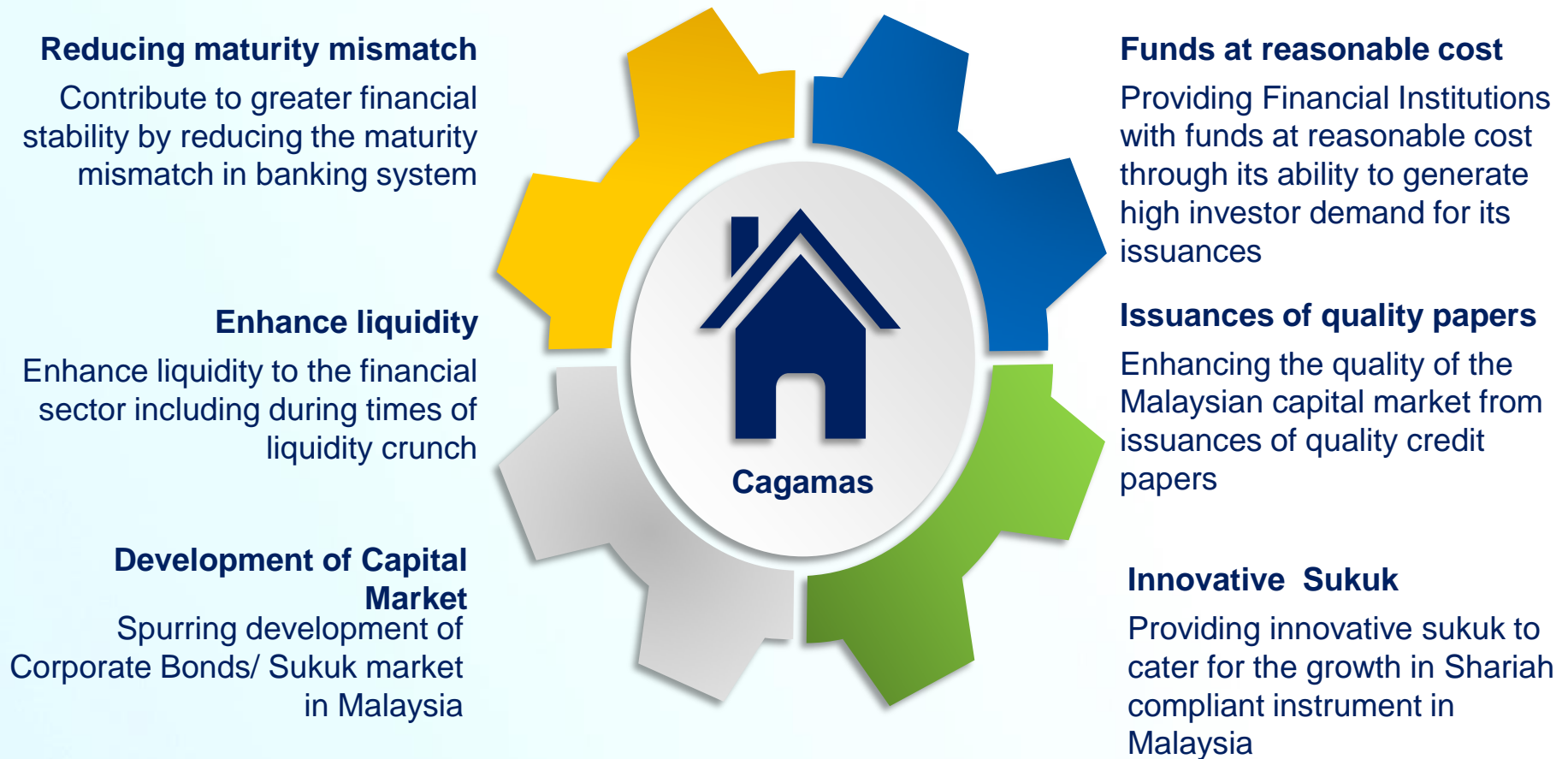
Maturity profile of Bond/Sukuk and Asset

(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

Role and Impact



Key Achievements

1	Cumulatively issued a total of RM312.1 bil (USD78 bil) bonds and sukuk	6	Developed and structured innovative Islamic financial instruments and solutions
2	Cumulatively refinanced housing loans in the secondary market worth up to RM142 bil (USD35.5 bil) or 1.9 million houses	7	Issued Malaysia's first Residential Mortgage-Backed Securities (RMBS) and world's first rated Sukuk Musyarakah RMBS
3	Provided guarantees for housing loans totaling RM2.1bil (USD0.5 bil) , enabling 9,840 individuals/households to own their first home under My First Home Scheme and Youth Housing Scheme	8	Cagamas' model is well regarded by the World Bank as a successful secondary mortgage liquidity facility
4	Establishment of US\$5bil Conventional and Islamic Multi Currency Euro Medium Term Note Programme (EMTN) in 2014	9	Executed ASEAN's first synthetic securitisation of SME loans and issued secured Credit Linked Notes
5	Maintained local credit rating of AAA by RAM and MARC , denoting its strong capitalisation, robust asset quality, stable profitability, prudent risk management and sound corporate governance	10	Issued inaugural RMB denominated bonds and settled via RENTAS



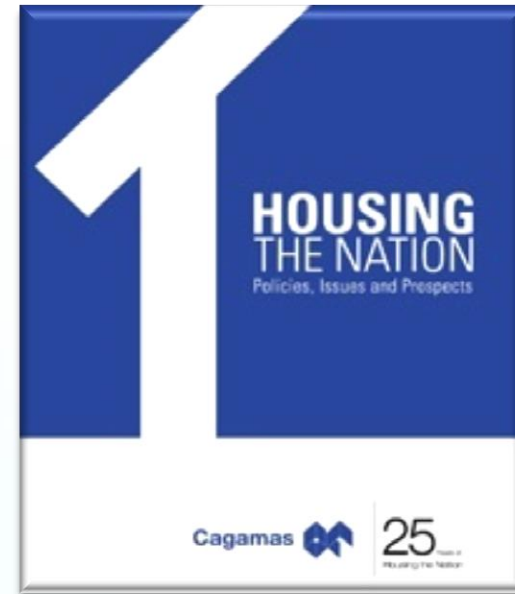
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Thank you

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