



Cagamas Berhad
THE NATIONAL MORTGAGE CORPORATION



MORTGAGE-BACKED SECURITIES MARKETS: EXPERIENCE OF MALAYSIA

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Outline

- **Housing Finance in Malaysia**
- Establishment of Cagamas Berhad
- Cagamas' Business Model
- Four Distinct Phases of Development of Cagamas Berhad
- Cagamas Debt Securities
- Securitisation of the Government's Staff Housing Loans
- Conclusion



HOUSING FINANCE IN MALAYSIA



Cagamas Berhad
THE NATIONAL MORTGAGE CORPORATION

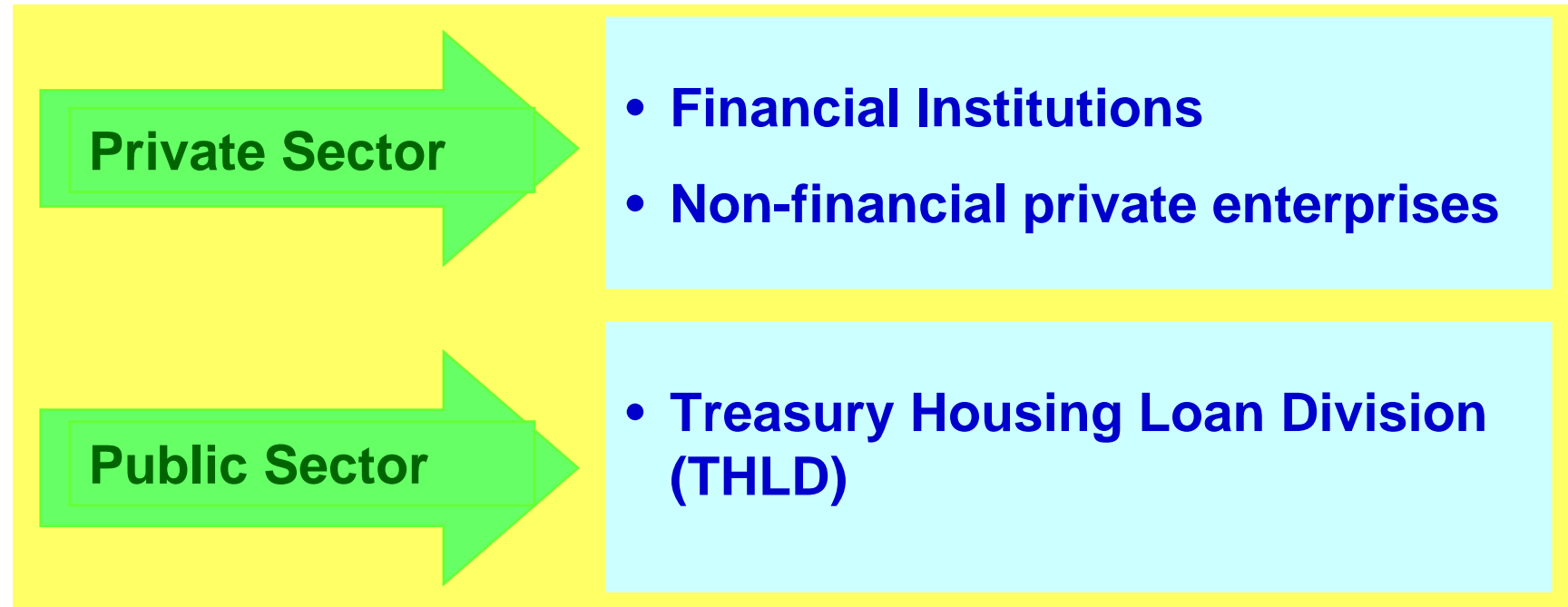


Government's Policy

- Objective of housing policy
 - to increase accessibility to adequate, affordable and quality houses
- Actively promote home ownership since the 1970s
 - especially among the lower- and middle-income groups



Housing Loans Originators



Eight Major Primary Lenders

**Commercial banks
(including Islamic)**

**Bank
Rakyat**

**Bank Simpanan
Nasional**

**Finance
companies**

**Borneo Housing
Mortgage Finance**

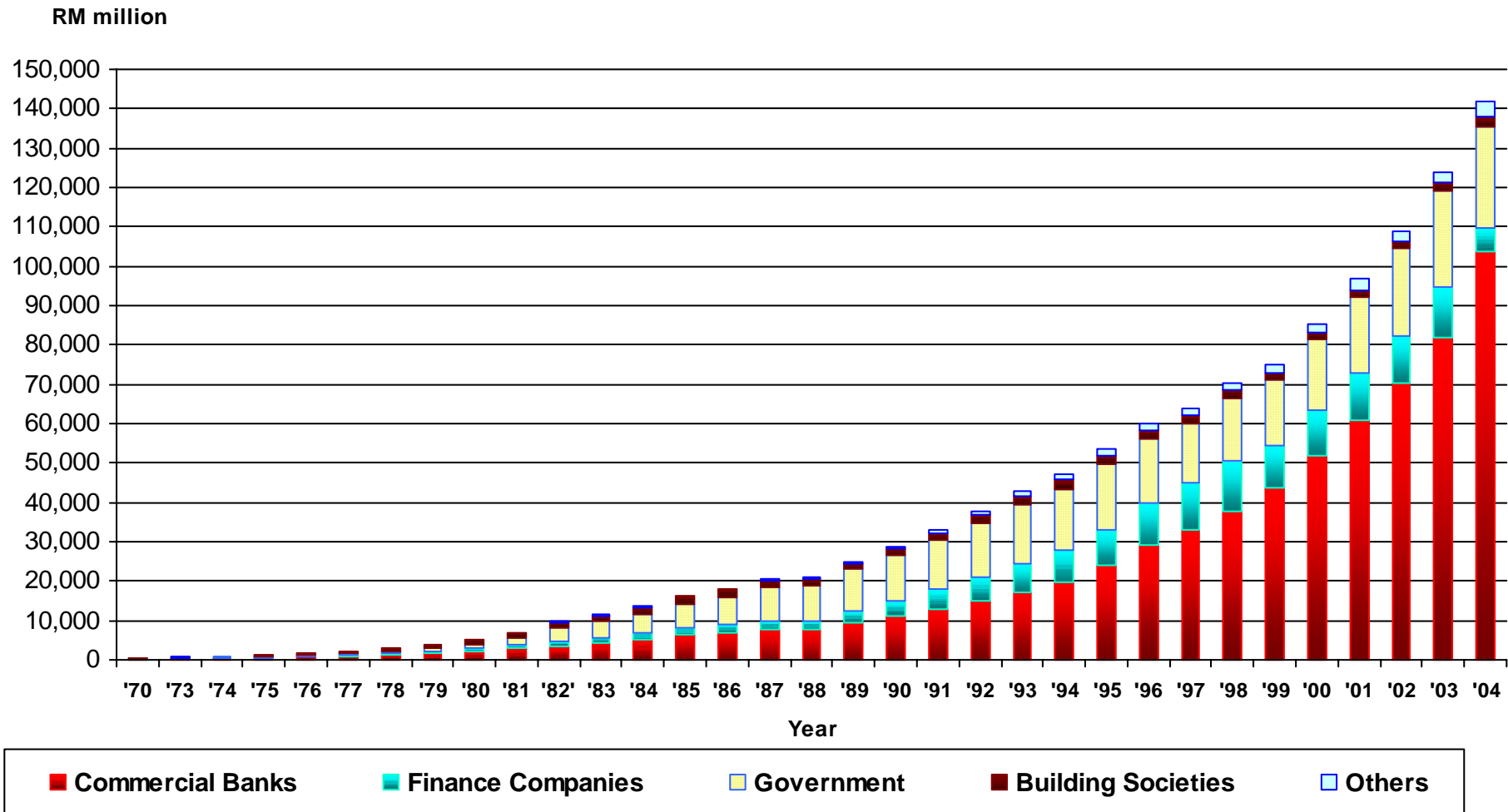
THLD

**Malaysia Building
Society Berhad
(MBSB)**

**Sabah Credit
Corporation**



Major Sources of Housing Finance



The Mortgage Market

Characteristics of housing loans in Malaysia

**Granted on
floating rate
basis**

**Have maturities
ranging from
15-25 years**

**Have low
default rates and
foreclosure losses
are minimal**



The Mortgage Market

- Ready access to credit facilities would only be available if:

- there are willing lenders
- the lenders are able to secure funds at low mortgage rates
- the primary lenders are able to sell some of their existing housing loans
- the lenders are able to raise funds to finance new housing loans on a revolving basis



The Financial Institutions

- In the early 1980s, the financial institutions faced tight liquidity situation
- They were subject to liquidity risk arising from the mismatch of maturities of the funds (short term) and the housing loans (long term)
- Therefore, the financial institutions would only be able to provide ready access to housing loans at favourable rates if they can secure cheap funds and reduce maturity mismatch



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Technical Committee

1980

A Committee set up by the BNM recommended the establishment of a secondary mortgage market

The proposal was not implemented since the conditions then were not conducive to introduce such a 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 requirements for setting up of an institution to act as an intermediary between primary lenders and investors



Technical Committee's Recommendation

- The Technical Committee recommended that a national mortgage corporation be established as a matter of priority in view of the prevailing recessionary conditions
- Cagamas was intended to be used as one of the measures to overcome the recession



Establishment of Cagamas Berhad

- 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' Role

- Cagamas was given a specific role to:



Encourage home ownership



Develop the private debt securities (PDS) market



Cagamas' Role

Encouraging home ownership

- Provides financial resources to enable primary lenders to grant more loans
- Provides liquidity by narrowing the gap between the maturity structure of the housing loans and the source of funds



Cagamas' Role

Encouraging home ownership

- Benefits to the house buyers
 - obtain easy access to housing loans at reasonable cost
 - obtain attractive and affordable housing loan packages characterised by low interest rates for the initial years



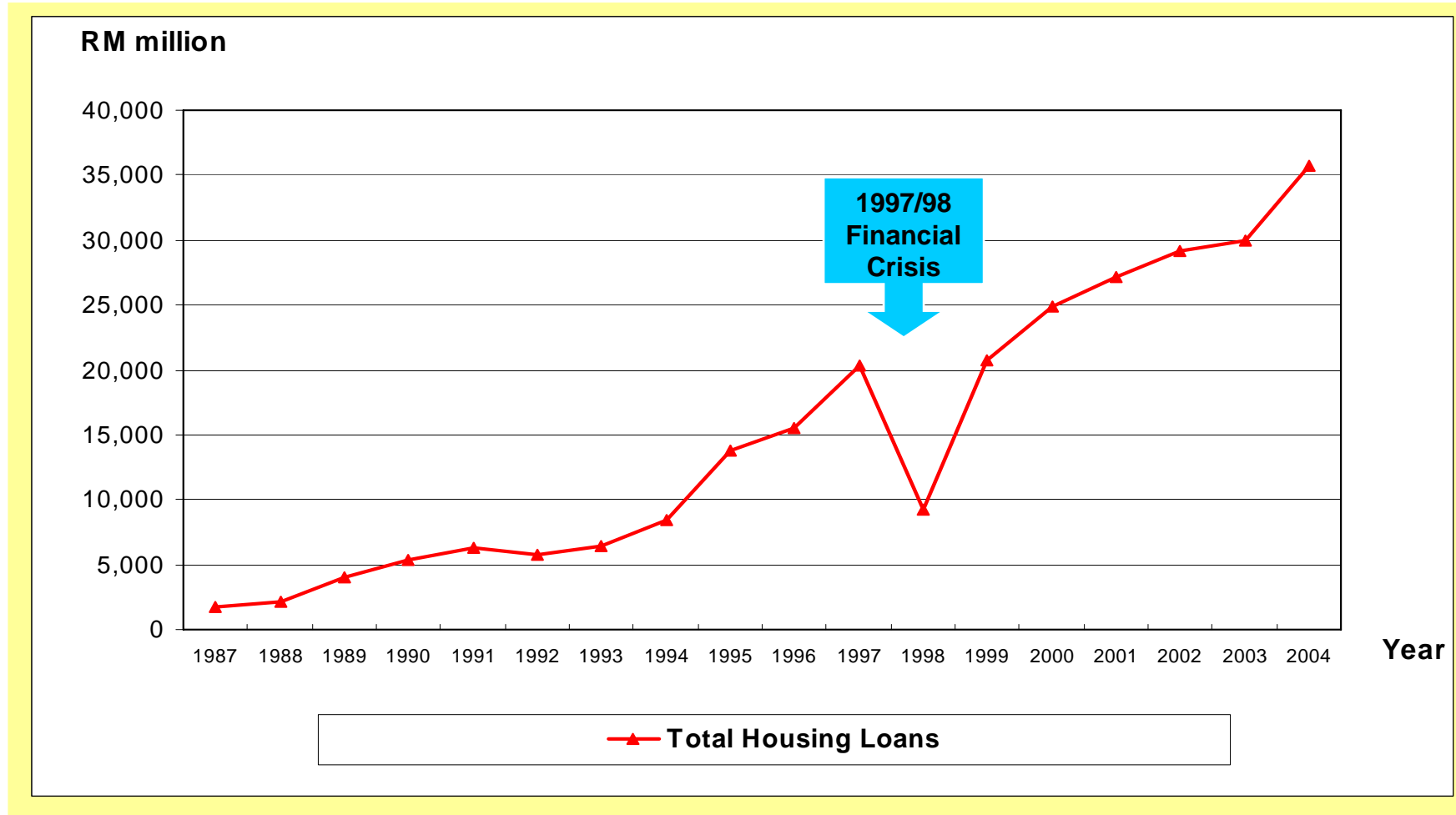
Housing Credit Outstanding*

Primary Lenders	1988		1998		2004	
	RM mil	%	RM mil	%	RM mil	%
Commercial Banks	7,712	36.6	37,770	53.6	103,654	73.1
Finance Companies	2,333	11.1	12,914	18.3	5,991	4.2
Treasury Housing Loans Division	8,968	42.6	15,794	22.4	25,930	18.3
Malaysia Building Society	1,285	6.1	1,436	2.0	1,753	1.2
Borneo Housing Mortgage Finance	466	2.2	533	0.8	705	0.5
Sabah Credit Corporation	162	0.8	269	0.4	238	0.2
Bank Rakyat	129	0.6	717	1.0	2,508	1.8
Bank Simpanan Nasional	-	0.0	1,006	1.4	1,059	0.7
Total	21,055	100.0	70,439	100	141,837	100

* Includes loans sold to Cagamas



Approved Housing Loans



Cagamas' Role

Encouraging home ownership

- Benefits to the sellers
 - hedge their interest rate risks
 - obtain liquidity at a competitive cost to originate more housing loans and enhance their lending operations
 - price their loan products competitively
 - improve their capital adequacy ratio if they sell on without recourse basis



Cagamas' Role

Encouraging home ownership

- Benefits to the Government and the economy
 - helps the Government to achieve its policy of encouraging home ownership
 - makes housing loans more affordable to the lower income group without any interest subsidy being incurred by the authorities
 - encourages property development and related spin-off effects



Cagamas' Role

Developing the PDS Market

- The PDS market was virtually absent until the creation of Cagamas
- The fledgling capital market began to grow more rapidly after Cagamas was established
 - provides additional instruments for investing surplus funds
 - provides an opportunity for bond dealers to undertake transactions in PDS on a large scale
 - paves the way for other corporations to raise funds in the domestic market



Cagamas' Role

Developing the PDS Market

- Other corporations have started to issue PDS as an alternative to borrowing from the financial institutions



Share of PDS Market

As at end	Other Private Debt Securities		Cagamas Bonds		Total	
	RM mil	%	RM mil	%	RM mil	%
1998	46,745	75.6	15,064	24.4	61,809	100.0
1999	78,632	85.8	13,019	14.2	91,651	100.0
2000	100,494	85.4	17,168	14.6	117,662	100.0
2001	117,674	86.6	18,283	13.4	135,957	100.0
2002	108,416	82.8	22,595	17.2	131,011	100.0
2003	144,595	84.9	25,628	15.1	170,223	100.0
2004	160,057	85.7	26,752	14.3	186,809	100.0



Cagamas' Role

Developing the PDS Market

- Benefits to the investors
 - high quality papers to investors
 - attractive channel for investment by pension funds, insurance companies and banks with large surplus long-term funds seeking long-term investment assets

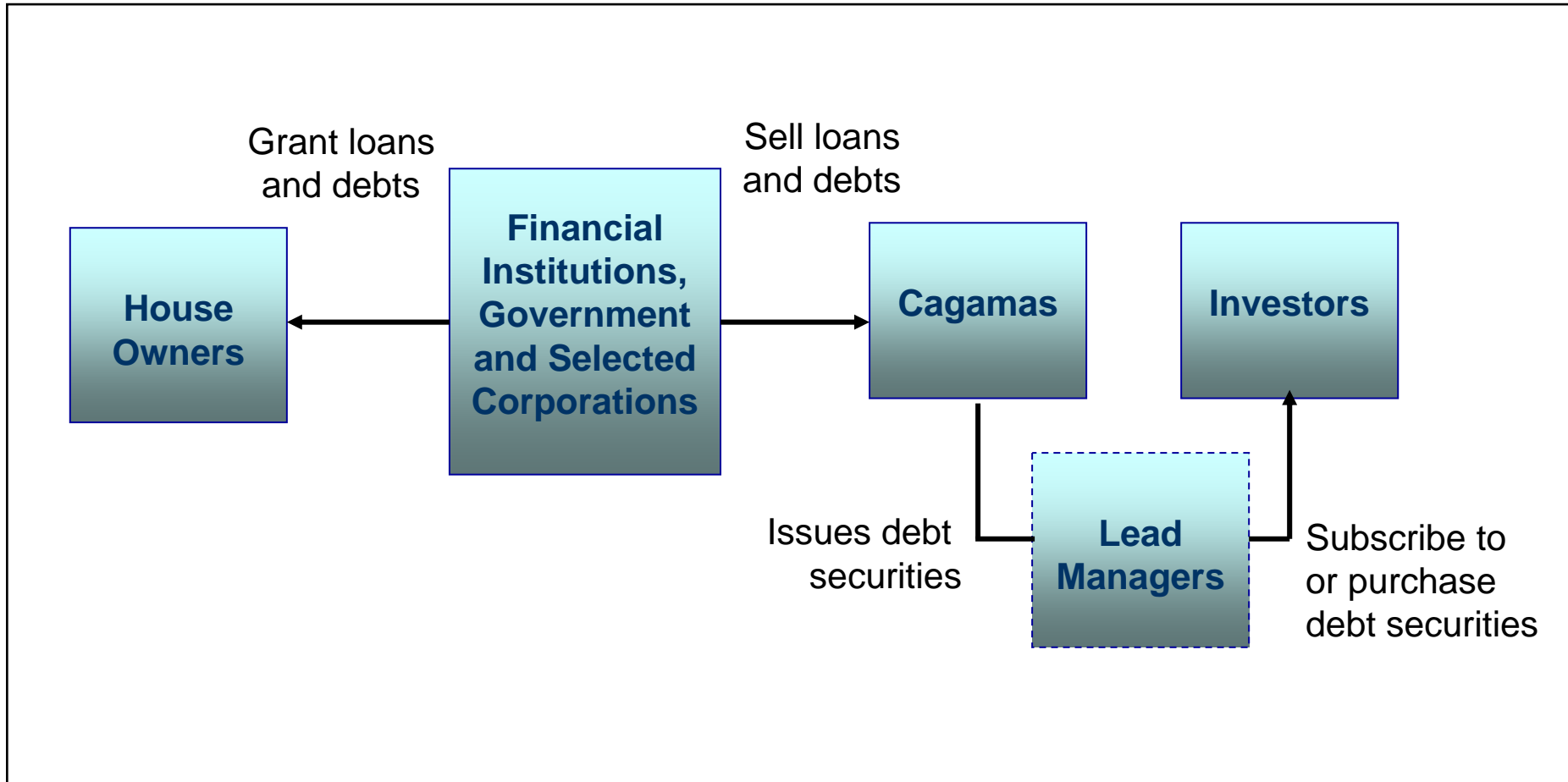


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- **Cagamas' Business Model**
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Housing Loans - Purchase With Recourse



Housing Loans - Purchase With Recourse

- Designed to:
 - suit local conditions; and
 - overcome barriers that could prevent the scheme from taking off successfully
- A necessary interim step as:
 - there was a lack of information and statistics regarding the credit risks
 - there was no incentive for the financial institutions to sell good quality housing loans on an outright basis



Purchase Based on Interest Review Periods

- At the end of the period, the primary lender has the option to repurchase the loans sold to Cagamas if it does not agree to the new interest rate offered by Cagamas
 - induce the primary lenders to sell
 - primary lenders do not have to commit themselves for the remaining life of the loan



Unsecured Debt Securities

- As the purchases are on with recourse basis, investors are not directly exposed to the underlying risks of the loans and debts
- Lack of information and statistics on credit risks, default rate and prepayment rate of housing loans
- Investors then were not ready for sophisticated financial instruments



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Cagamas' Four Phases of Development

1987-1991	Start-up Phase
1992-1997	Take-off and Growth Phase
1998-2003	Diversification Phase
2004 to date	Securitisation Phase



Cagamas' Four Phases of Development

1987-1991

Start-up Phase

- The initial years of Cagamas were not without difficulties
- The newness of its operations and its limited product line contributed to its slow progress in the early stage
- Initially, only one product - buying on fixed rate for 5 years with recourse
- 1989-1990 - extended purchases on fixed rates for 3- and 7-year periods



Cagamas' Four Phases of Development

1987-1991

Start-up Phase

- First five years - low volumes of housing loans purchased
 - unfamiliarity with Cagamas' operations and the advantages of selling housing loans to Cagamas
 - interest rates were declining rapidly
- As at end-December 1991, outstanding housing loans with Cagamas amounted to only RM1.9 billion



Cagamas' Four Phases of Development

1992-1997

Take-off and Growth Phase

- From 1992 - active marketing and introduction of new products
- Widening of client base to include selected corporations
- Extended its range of products on with and without recourse basis



Cagamas' Four Phases of Development

1992-1997

Take-off and Growth Phase

- Purchase With Recourse
 - Floating rate housing loans (1992)
 - Convertible rate housing loans (1993)
 - Islamic house financing debts (1994)
 - Industrial property loans (1996)
- Purchase Without Recourse
 - Housing loans (1999)



Cagamas' Four Phases of Development

1998-2003

Diversification Phase

- Purchase With Recourse
 - Hire purchase and leasing debts (1998)
 - Islamic hire purchase debts (2002)
 - Credit card receivables (2003)



Cagamas' Loans and Debts Outstanding

	As at end-June 2005	
	RM million	%
<u>PURCHASE WITH RECOURSE</u>	25,207.7	94.7
Housing loans	13,438.1	50.5
Conventional	12,753.7	47.9
Islamic	684.4	2.6
Industrial property loans	18.3	0.1
Hire purchase and leasing	11,751.3	44.2
Conventional	10,007.0	37.6
Islamic hire purchase debts	1,744.3	6.6
Total Loans and Debts	26,614.9	100.0



Cagamas' Four Phases of Development

2004 to date

Securitisation Phase

- 20 October 2004 - Securitisation of the Government's staff housing loans
- Cagamas is also looking into the securitisation of other asset classes (including those based on Islamic principles)



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Types of Cagamas Bonds

Unsecured Debt Securities

- Cagamas fixed rate bonds
- Cagamas floating rate bonds
- Short-term Cagamas notes
- Sanadat Mudharabah Cagamas
- Sanadat Cagamas
- Cagamas Bithaman Ajil Islamic Securities (BAIS)

Residential Mortgage-Backed Securities



Cagamas Bonds Outstanding

Unsecured Debt Securities

As at end	Fixed Rate Bonds	Floating Rate Bonds	SMC	Sanadat Cagamas	Cagamas BAIS	Cagamas Notes	Total
	RM million						
1998	14,060	850	154	-	-	6,210	21,274
1999	12,895	0	124	-	-	6,400	19,419
2000	17,098	0	214	-	-	4,167	21,479
2001	18,283	0	144	-	-	3,110	21,537
2002	21,841	0	754	-	-	2,375	24,970
2003	24,554	0	1,074	-	-	875	26,503
2004	24,222	0	930	1,600	-	1,500	28,252
Jun-05	22,827	0	930	1,600	400	0	25,757



Cagamas Bonds Outstanding

Residential Mortgage-Backed Securities

As at end	Residential Mortgage-Backed Securities	Islamic Residential Mortgage-Backed Sukuk Musyarakah
	RM million	
Sep-05	1,555	2,050



Credit Rating

- Cagamas papers have sterling record of highest ratings
 - AAA for its longer term bonds
 - P1 and MARC-1 for its short-term notes
- **Factors supporting its credit rating:**
 - prudent management of loan purchase operations and investment
 - quality of shareholders
 - stable income stream



Investors' Profile

Investors	As at end-December 2004	
	RM million	%
Financial Institutions	15,207	56.8
Insurance Companies	1,189	4.5
Provident and Pension Funds	7,129	26.6
Others	3,227	12.1
Total	26,752	100.0



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Housing Loans - Purchase Without Recourse

- Introduced in March 1999 in tandem with the thrust towards asset-backed securitisation
- However, there was no urgency for the financial institutions to securitise their housing loans
 - housing loans are good quality assets
 - excess liquidity in the banking system
 - high risk-weighted capital adequacy ratio of the banking system [12.5% (1999), 14.2% (2004)]
 - housing loans are deemed to be high quality assets since their default rates are very low and foreclosure losses are negligible



Securitisation of Housing Loans

- The breakthrough for the scheme came in April 2004 when the Government of Malaysia mandated Cagamas to undertake the securitisation of the Government's staff housing loans (GSHL) over a period of time
- The aggregate outstanding principal amount of the housing loans was RM24 billion then



Securitisation of GSHL

OBJECTIVES

To further increase the depth and breadth of the domestic bond market

To promote asset-backed securities (ABS) as a new tool for raising funds from the capital market

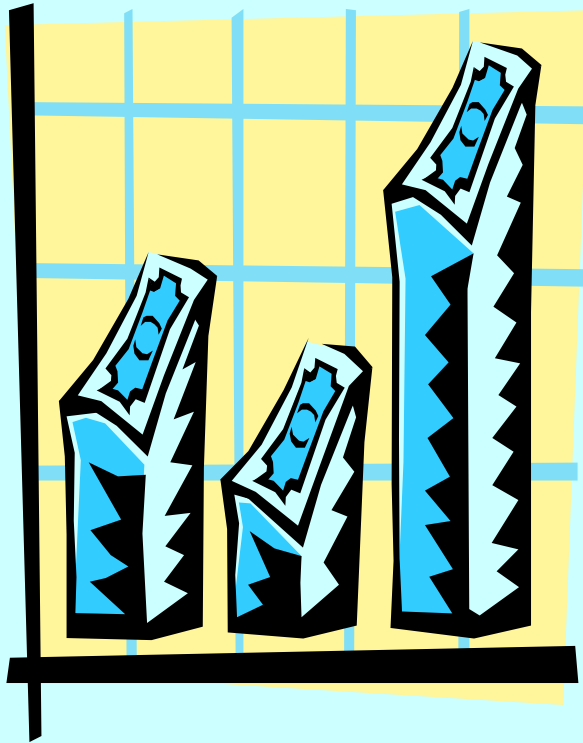
To create a yield curve for MBS that serves as benchmark for other ABS issues



Cagamas MBS Berhad (CMBS)

- Cagamas Berhad incorporated a wholly-owned subsidiary, Cagamas MBS Berhad (CMBS), as a limited-purpose entity to solely:
 - purchase the Government's staff housing loans; and
 - issue RMBS
- CMBS has certain features of a bankruptcy-remote entity
 - restrictions place upon it in M&A and Trust Deed
 - cross-collateralisation of security is not expected for any of its issues





FIRST DEAL: ISSUANCE OF RM1.555 BILLION RMBS

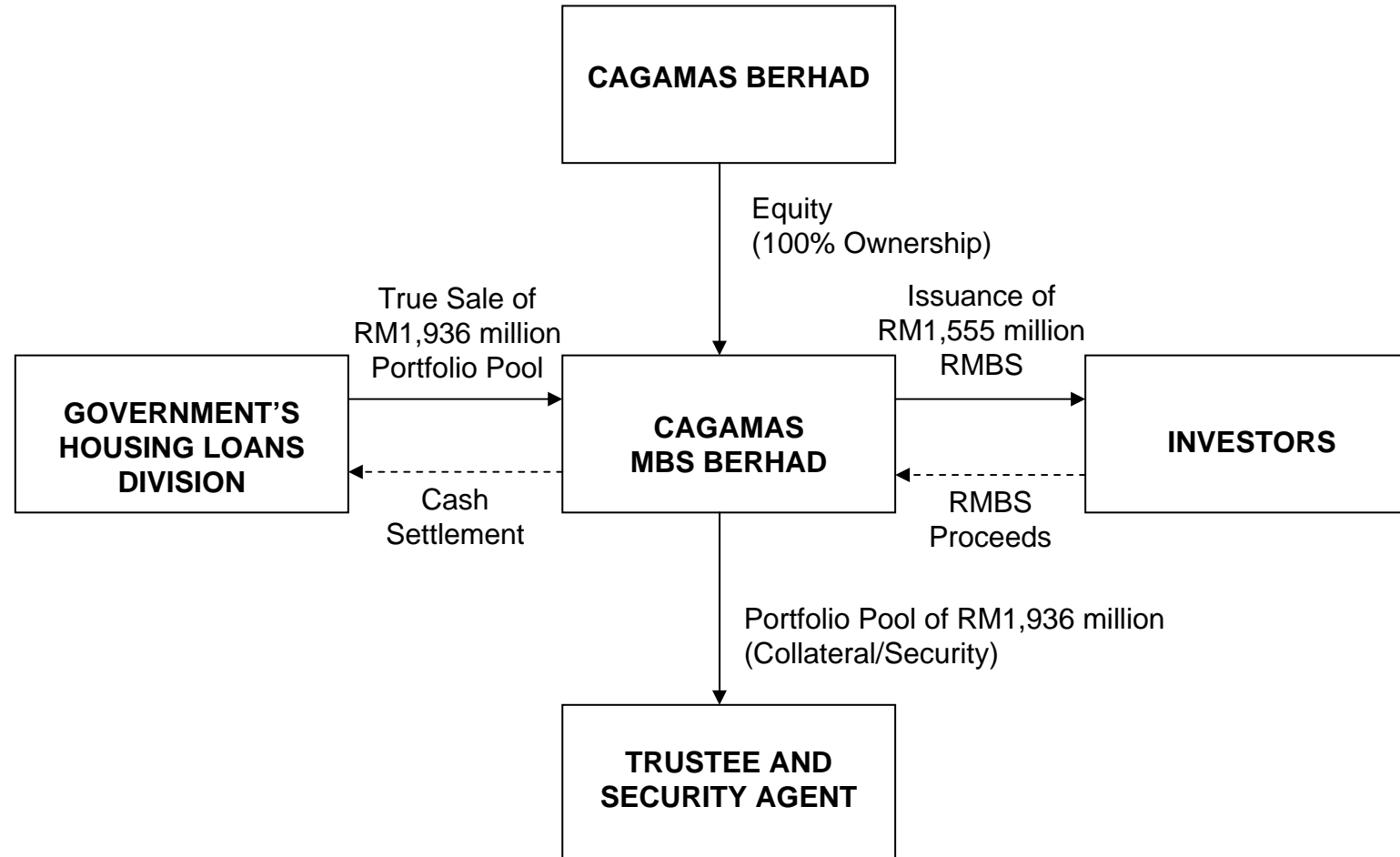


The First Deal

- Securitisation of RM1.936 billion Government's staff housing loans
 - Malaysia's first transaction backed by residential mortgages
 - issuance of RM1.555 billion nominal value RMBS on 20 October 2004 by CMBS



RMBS: The Structure



RMBS: Salient Characteristics

Issuer

- Cagamas MBS Berhad

Issue

- RM1.555 billion RMBS issue comprising the following tranches:

Tenure (Years)	Issue Amount (RM million)	Maturity Date	Coupon Rate (%)	Spread over MGS (basis points)
3	580	19-Oct-2007	3.70	18
5	340	20-Oct-2009	4.30	26
7	290	20-Oct-2011	4.95	38
10	345	20-Oct-2014	5.50	45

Principle

- Conventional



Rating of RMBS

- The RMBS was accorded the highest rating of AAA by both Rating Agency Malaysia Berhad (RAM) and Malaysian Rating Corporation Berhad (MARC)
- The rating reflects:
 - the superior quality of the underlying assets
 - the strong counterparties
 - the credibility of the RMBS structure, where the source of repayment for these assets comes from pension deductions by the Government



Investors of RMBS

- The RMBS issue attracted RM11.1 billion in book size
 - foreign interest from Hong Kong and Singapore amounting to approximately RM2.2 billion
 - RM8.9 billion was from domestic institutions
- Investors comprise financial institutions, asset managers, insurance companies and corporates



Competitive Pricing

- The tremendous response enabled the issue to be priced competitively at the lower end of the price guidance
- At the cut-off prices, the book size remained substantial at RM10.6 billion giving an over subscription rate of 5.6 times



Trading of RMBS

- The 3-year RMBS
 - most actively traded in the secondary market due to the yield pick up as compared to MGS
- The 10-year RMBS
 - the least traded as the bonds were mostly held for investment





SECOND DEAL: ISSUANCE OF RM2.050 BILLION IRMBS

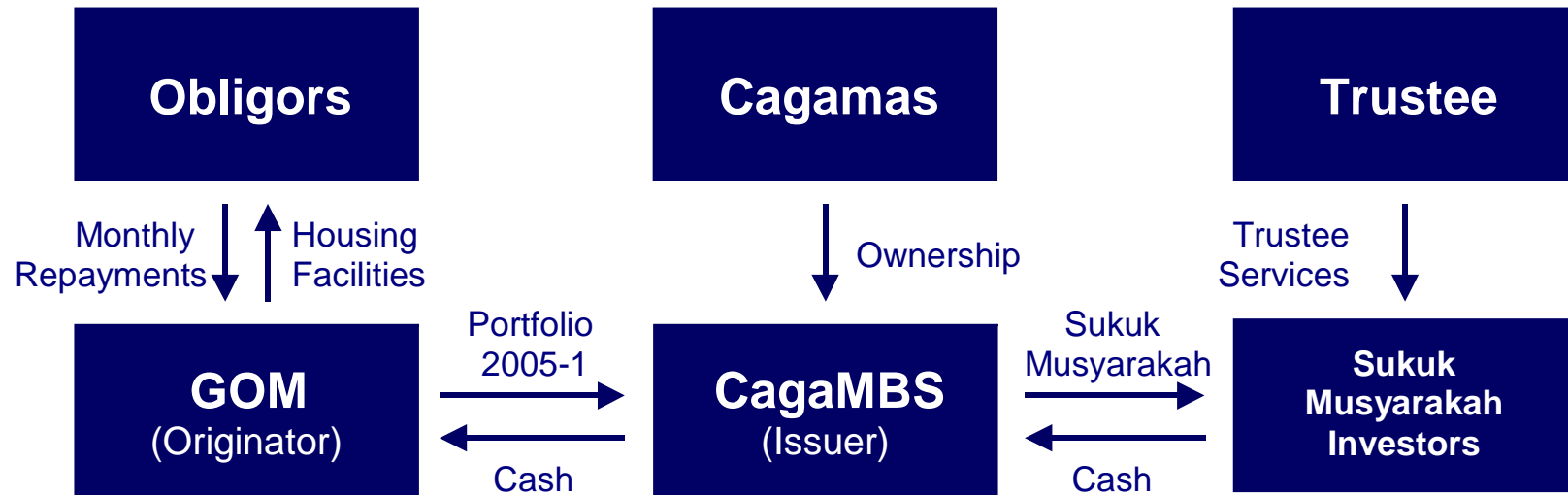


The Second Deal

- Securitisation of RM2.844 billion Government's staff Islamic home financing
 - first world's rated issuance of Islamic securities backed by a pool of the Government's staff Islamic home financing
 - issuance of RM2.050 billion nominal value Islamic Residential Mortgage-Backed Sukuk Musyarakah (IRMBS) on 8 August 2005 by CMBS



IRMBS: The Structure



*Sale of Portfolio 2005-1,
by way of Equitable
Assignment*

*Issuance of Sukuk
Musyarakah by CagaMBS
to fund purchase of
Portfolio 2005-1*

IRMBS: Salient Characteristics

Issuer

- Cagamas MBS Berhad

Issue

- RM2.050 billion IRMBS issue comprising the following tranches:

Tenure (Years)	Issue Amount (RM million)	Maturity Date	Coupon Rate (%)	Spread over MGS (basis points)
3	250	08-Aug-2008	3.41	27
5	215	06-Aug-2010	3.84	46
7	260	08-Aug-2012	4.24	47
10	515	08-Jul-2015	4.71	51
12	410	08-Aug-2017	5.01	68
15	400	08-Jul-2020	5.27	73

Principle

- Islamic - Sukuk Musyarakah



Partnership Arrangement

- The IRMBS issued under the principle of Musyarakah involves a partnership arrangement between various parties to raise capital towards the financing of a business venture
- Both profits and losses will be shared on the basis of equity participation



Rating of RMBS

- The IRMBS has been accorded the highest rating of AAA by both MARC and RAM
- The rating reflects:
 - the superior quality of the underlying assets
 - the strong counterparties
 - robustness of the IRMBS structure, where the source of repayment for the IRMBS will be deductions at source from comes from salary and pension payments of the Government's staff



Investors of RMBS

- The IRMBS issue attracted RM13.5 billion in book size
 - foreign interest from Hong Kong and Singapore amounting to approximately RM0.7 billion
 - RM12.8 billion was from domestic institutions
- Investors comprise financial institutions, asset managers, insurance companies and corporates

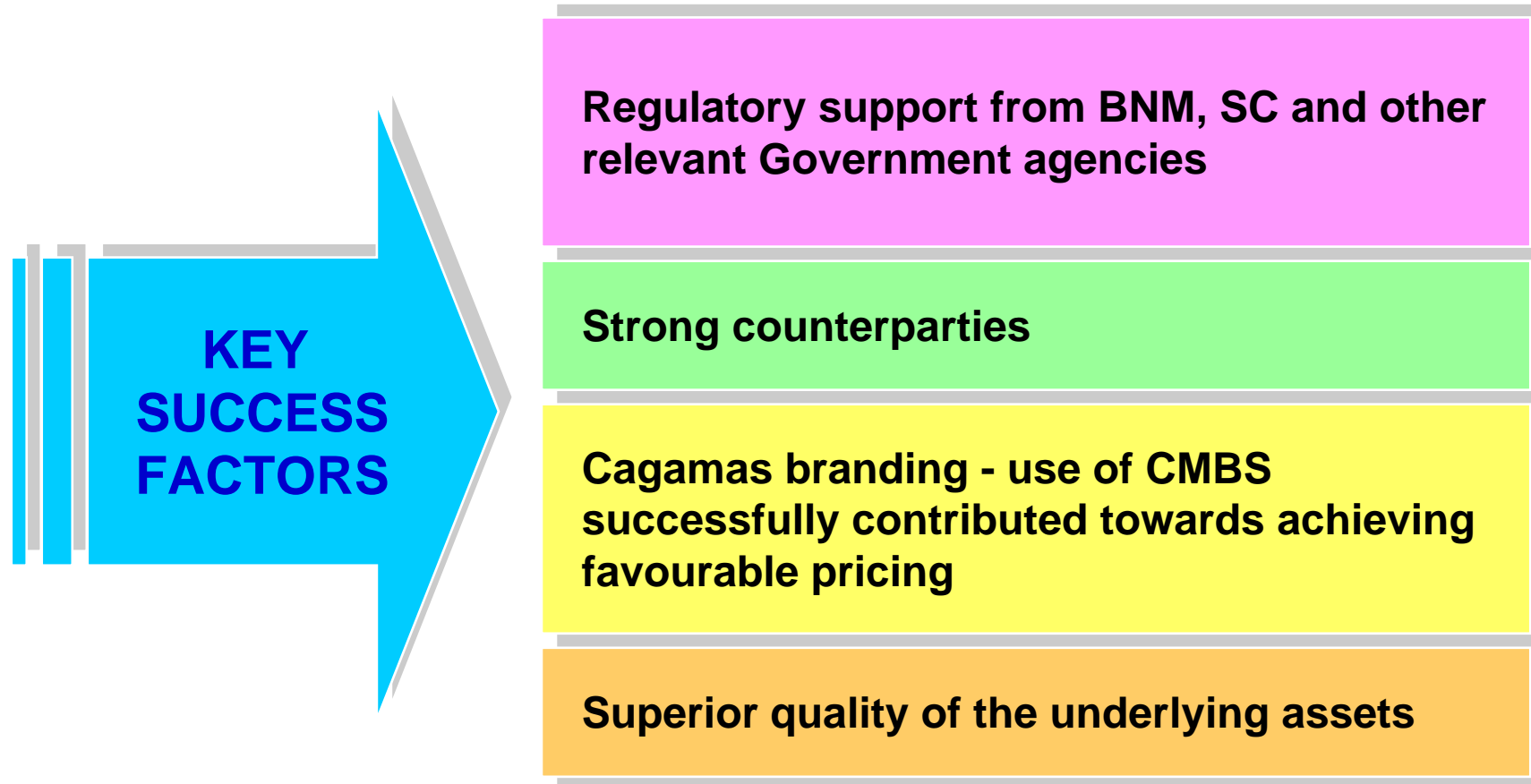


Competitive Pricing

- The tremendous response enabled the issue to be priced competitively at the lower end of the price guidance
- At the cut-off prices, the book size remained substantial at RM13.1 billion giving an over subscription rate of 5.4 times



Key Success Factors



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Conclusion

- Cagamas is now at the crossroads of having to operate in a competitive level playing field while retaining its important social objective of encouraging home ownership
- Cagamas will therefore continue to develop innovative and more diverse financial products to meet the requirements of sellers and investors



Conclusion

- In line with our mission to promote home ownership, Cagamas on its part, will continually refine, modify and introduce new products, including Islamic products, to meet the challenges of ensuring easy accessibility to housing loans at an affordable cost





THANK YOU

For more information, please visit our website at:
www.cagamas.com.my

or email:
info@cagamas.com.my



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