



Cagamas Berhad

The National Mortgage Corporation

Presentation to Growing Housing Opportunities in Africa Conference

The Role of Mortgage Liquidity Facility and Mortgage Guarantee Programme In Housing Finance

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25
Years of
Housing the Nation



1. Description of Mortgage Liquidity Facility (MLF)

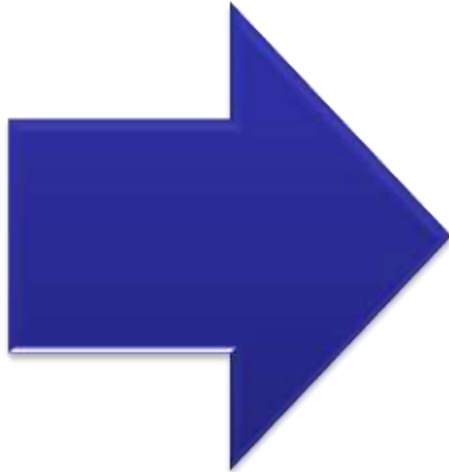
- Benefits of MLF

2. Establishment of Cagamas

- Cagamas Business Model
- Purchase With Recourse (PWR) Structure
- Purchase Without Recourse (PWOR) Structure
- Residential Mortgage-Backed Securitisation (RMBS)

3. Mortgage Guarantee Programme (MGP)

- MGP Illustration
- Benefits of MGP
- My First Home Scheme (SRP)



What is the purpose of MLF?

- Act as intermediary between primary mortgage lenders and capital market investors
- To support long term lending activities of mortgage lenders



MLF's Objective

- Reducing maturity mismatch between housing loans and sources of funds
- Provide longer term funds to mortgage lenders
- To develop the primary mortgage market by providing funds to mortgage lenders at better rates and longer tenors, thus facilitating affordability
- Promote keener competition & create a more level playing field among mortgage originators: benefits home buyers





Benefits of MLF

Lenders	Homebuyers	Govt and Economy
Hedge interest rate risks	Obtain easy access to housing loans at reasonable cost	Helps to achieve its policy of encouraging home ownership
Obtain liquidity at competitive costs to originate more housing loans and enhance lending operations	Obtain attractive and affordable housing loan packages	Potential liquidity policy tool. 2 nd lender of last resort in times of liquidity crisis*
Price loan products competitively	Competition can spur more attractive mortgages offered by more lenders	Encourages property development and related spin-off effects
Improve RWCR if they sell on without recourse basis		Makes housing loans more affordable to the lower income group
Playing field is levelled whereby mortgage origination is no longer the exclusive domain of stronger rated FIs		

* Illustrated further in Cagamas' case – page 16 & 17



Establishment of Cagamas

- As a direct result of the needs of market, Cagamas was set up in December 1986 as a national mortgage corporation with 2 main objectives:

1. Accessibility to long-term funds to support home ownership
2. Spearhead development of the private debt securities market



Function as intermediary between primary lenders and investors of long term

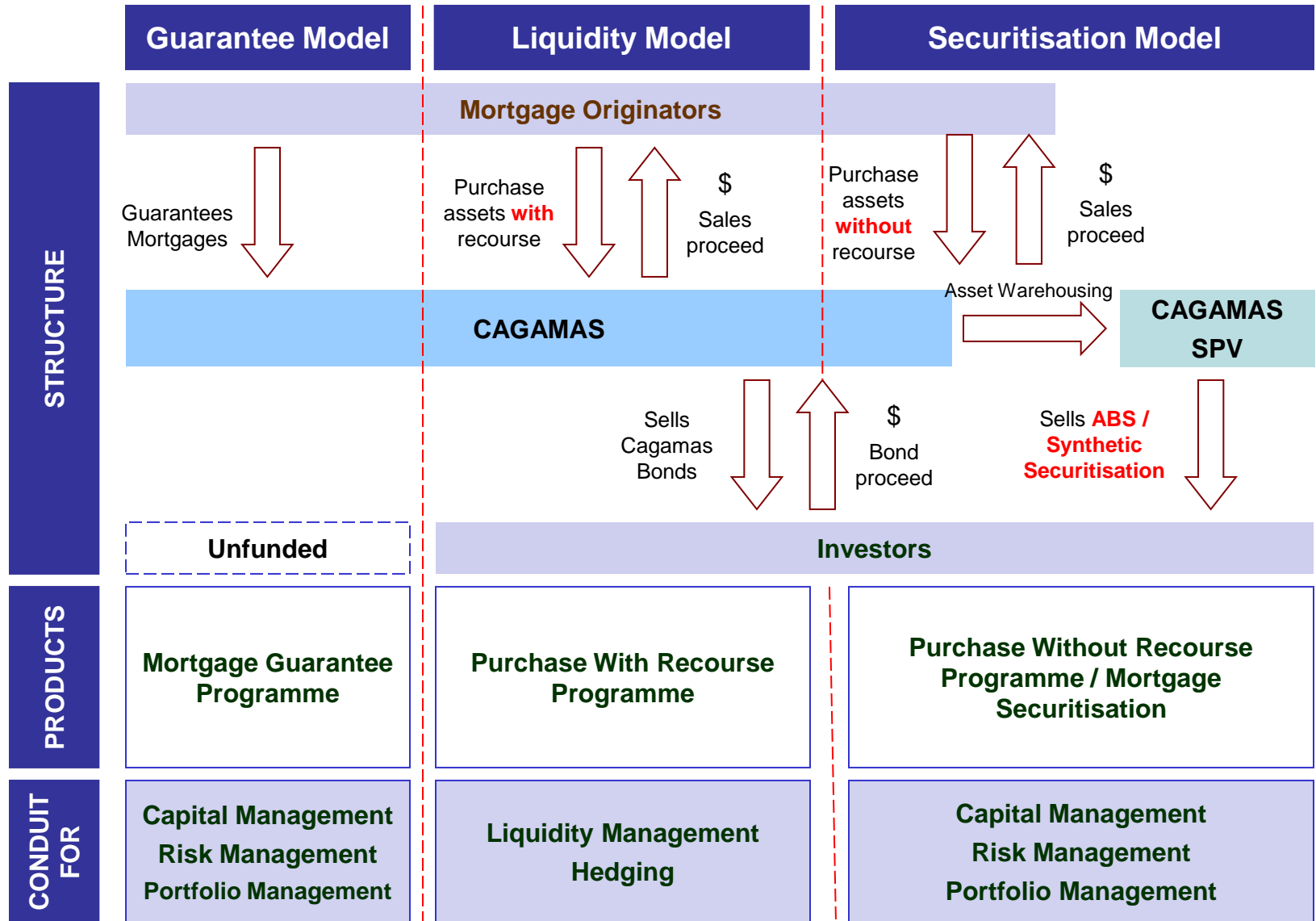


Take on role of credible issuer of mortgage securities

- Cagamas has entered into its first transaction on 16 October 1987 for the Pilot Purchase of housing loans totaling RM110 million. Subsequently, the Subscription Agreement for the first issue of RM100 million unsecured Cagamas bonds was signed.



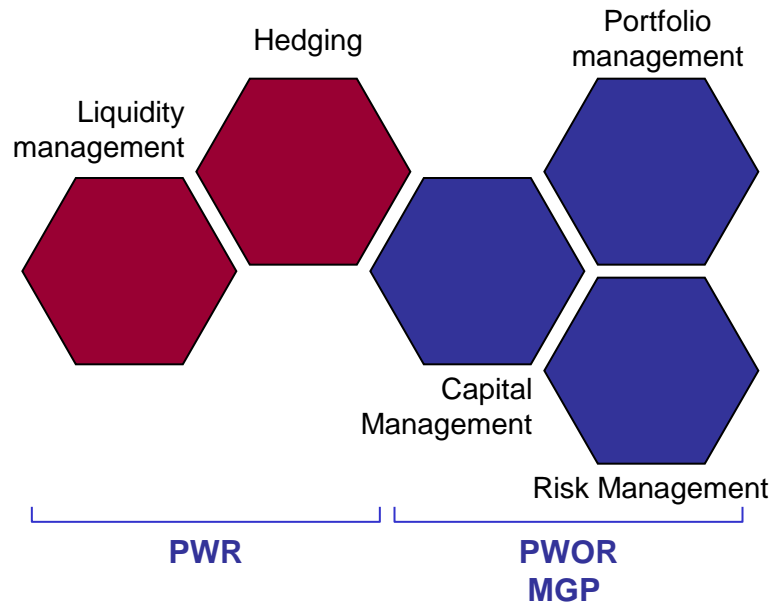
Cagamas Business Model





Cagamas Business Model (cont)

- Cagamas offers the following tools to the FIs:-



- Cagamas purchases both **conventional** and **Islamic** loans / financing and fund the purchases through the issuance of conventional and Islamic debt securities.
- Loans / financing are purchased either on a with recourse to the originator basis (**PWR**); or on a without recourse basis (**PWOR**)
- **MGP** offers 'first loss' protection on a mortgage portfolio while the mortgage assets remain on the Originator's books

Type of Loans / Financing Purchased:

Purchase with Recourse (PWR)

- Conventional Housing Loans
- Islamic House Financing
- Industrial Property Loans
- Hire Purchase and Leasing
- Islamic Hire Purchase
- Islamic Personal Financing
- Rahn Financing

Purchase without Recourse (PWOR)

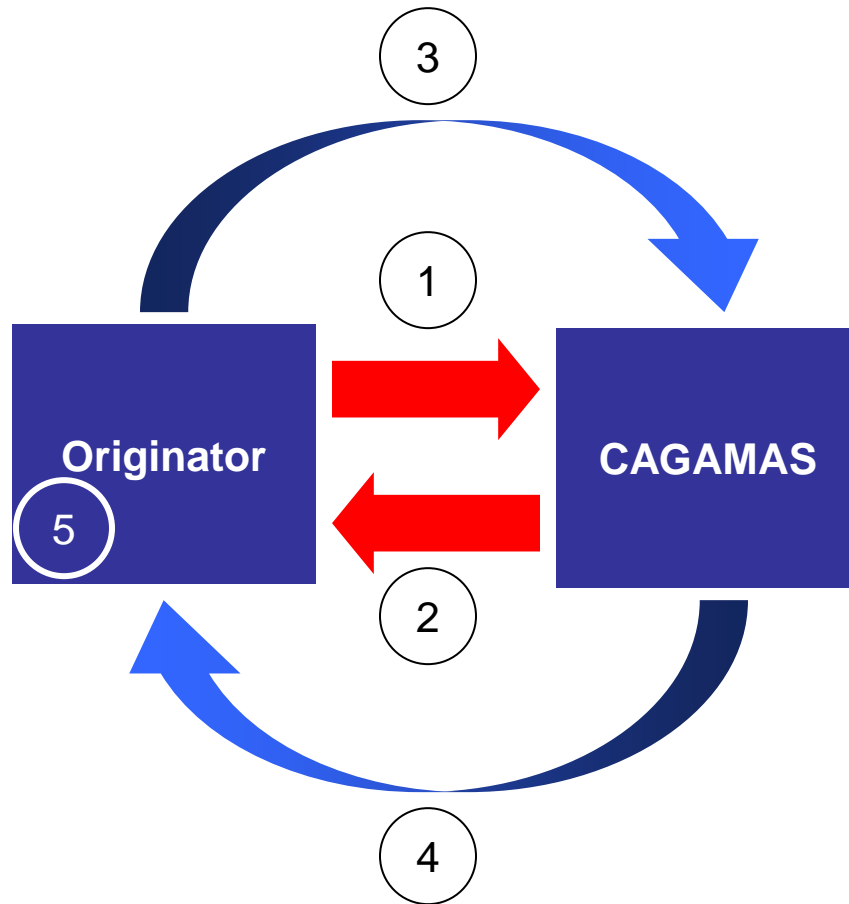
- Conventional Housing Loans
- Islamic House Financing
- Hire Purchase
- Islamic Hire Purchase

Mortgage Guarantee Programme (MGP)

- Conventional Housing Loans
- Islamic House Financing



Purchase With Recourse (PWR) Structure

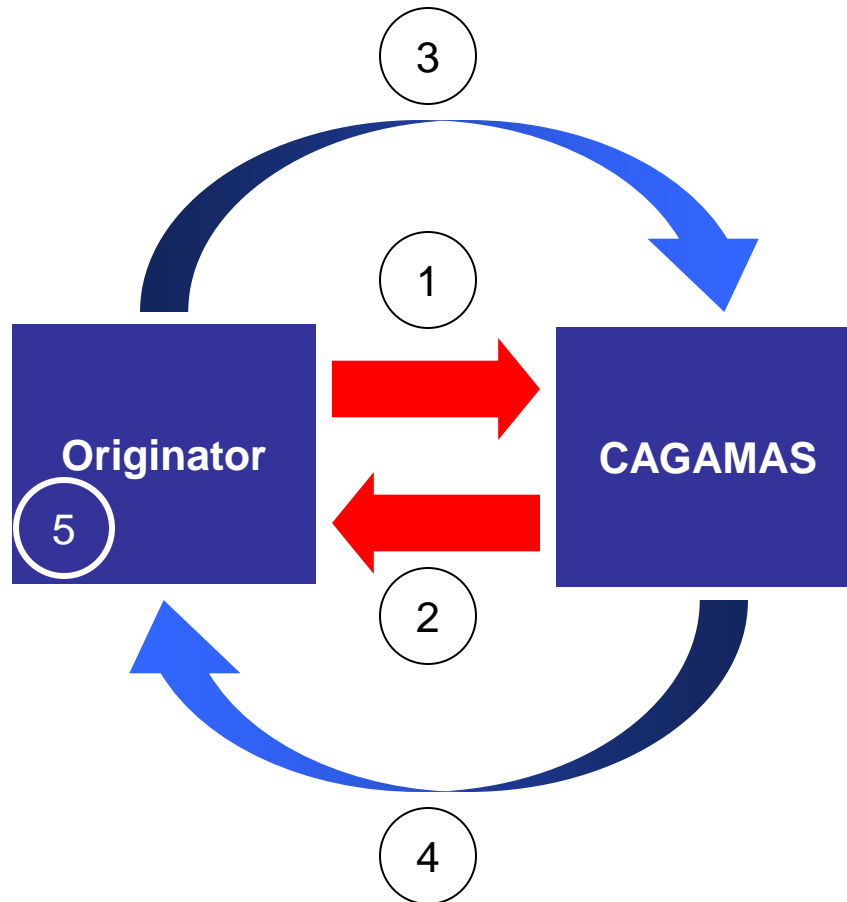


1. Originator sells loans/financing to Cagamas on a **with recourse** basis
2. Cagamas pays cash or bonds as consideration for loans/financing
3. Post sale, Originator continues to service customer and remits repayments to Cagamas
4. Cagamas pays servicer fee to Originator upon receipt of loan/financing collection
5. Originator remains responsible for any losses arising from defaults by borrower and obliged to repurchase the loans/financing upon maturity of the contract

▪ In substance, Cagamas funds FI against security of the underlying loans/financing



Purchase Without Recourse (PWOR) Structure



1. Originator sells loans/debts to Cagamas on a **without recourse** basis
2. Cagamas pays cash or bonds as consideration for loans/debts
3. Post sale, Originator continues to service customer and remits repayments to Cagamas
4. Cagamas pays servicer fee to Originator upon receipt of loan/debt collection
5. Originator saves on Capital Charge after loans/debts sold to Cagamas



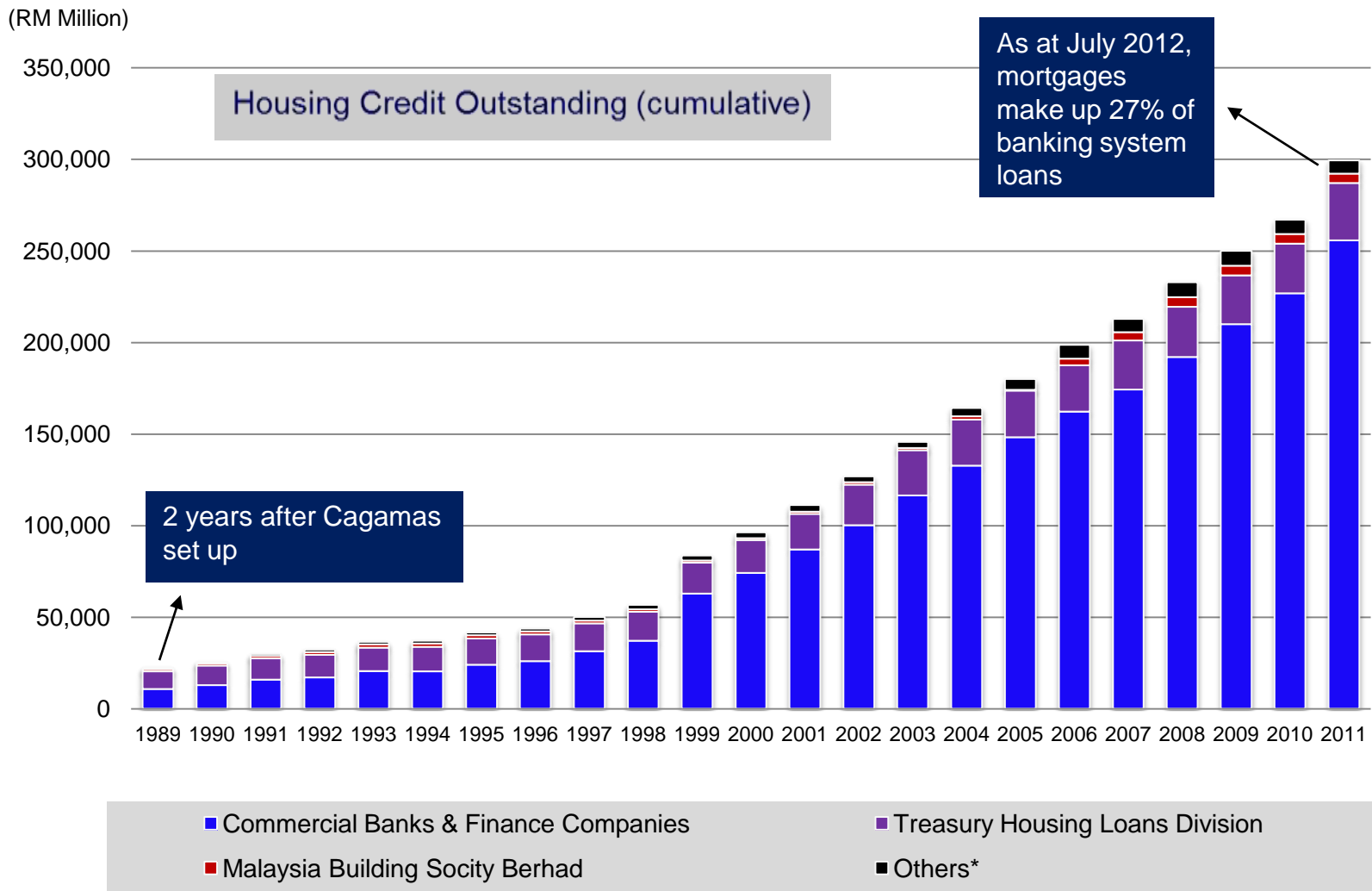
Residential Mortgage-Backed Securitisation (RMBS)¹⁵

- A type of asset-backed security that is secured by a mortgage or collection of mortgages.
- Cagamas MBS Berhad (CMBS), a wholly-owned subsidiary of Cagamas Holdings Berhad was incorporated as a limited-purpose entity to solely purchase the Government's staff housing loans and to issue RMBS
- From the perspective of the Seller, the benefits and accounting treatment of RMBS mirrors that of PWOR



Impact of Cagamas on Malaysian Mortgage Market

Promotion of home ownership/home accessibility and affordability in Malaysia



Source: BNM Annual Report, various years

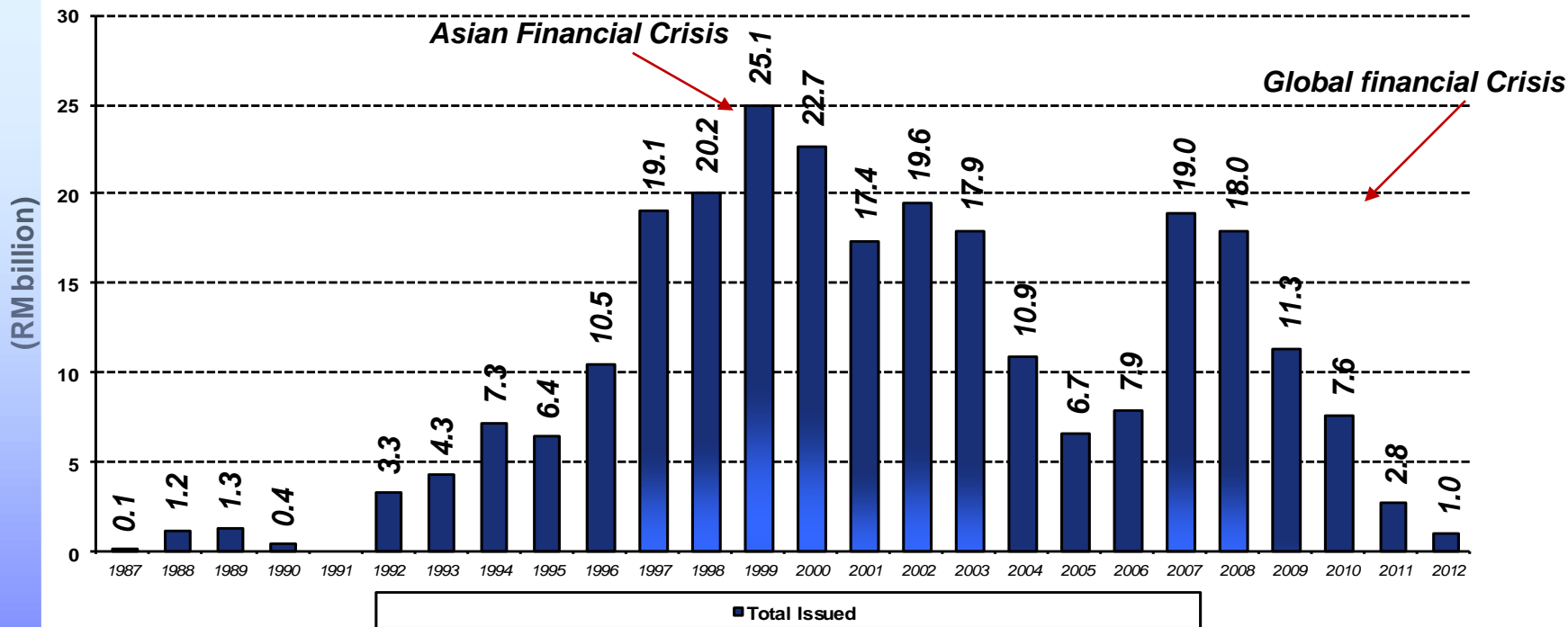
* Others inclusive of Bank Kerjasama Rakyat Malaysia Berhad, Borneo Housing Mortgage Finance Berhad, Bank Simpanan Nasional and Sabah Credit Corporation





Annual Issuance of Cagamas Bonds

Cagamas' role is prominent in times of liquidity crisis



Total bonds issued = RM261.7 billion
Total redemption = RM235 billion
Total outstanding Cagamas bonds as at 30 June 2012

- Unsecured :RM19.7 billion
- RMBS :RM 6.9 billion
- RM26.6 billion



Impact of Setting up Cagamas

- Promoting access to longer tenure housing loans
- Generating strong competition among FIs to grant housing loans
- Providing liquidity to the financial sector
- Strengthening the financial sector
- Enhancing the quality of the Malaysian capital market
- Providing an alternative form of investment in high quality Private Debt Securities (PDS)
- Developing the Islamic Finance and Sukuk market



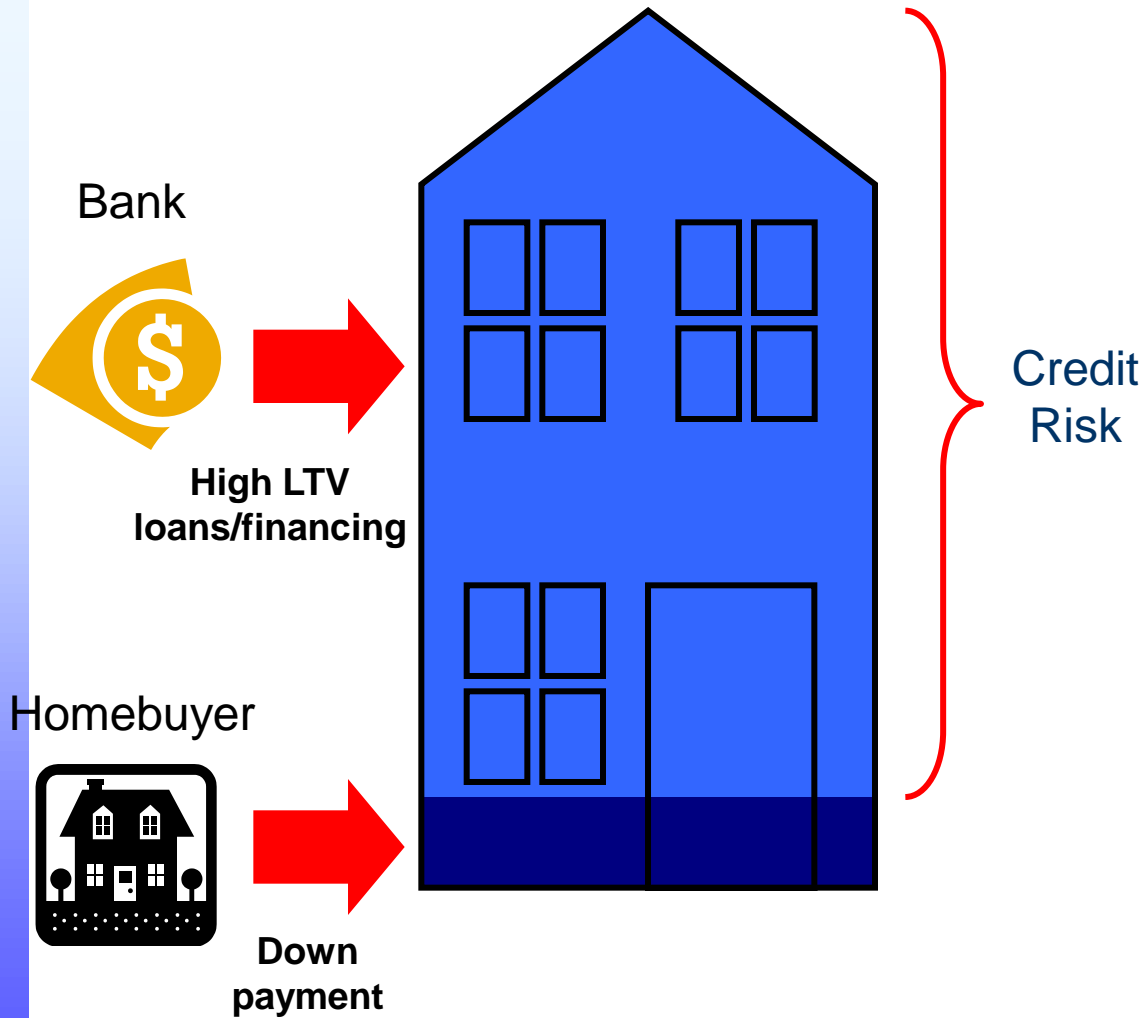
Mortgage Guarantee Programme (MGP)

- MGP offers ‘first loss’ protection on a mortgage portfolio while the mortgage assets remain on the Originator’s books.
- By reducing the credit risk on their mortgage loan/financing portfolio, Originators can improve their Risk Weighted Capital Ratio (“RWCR”).



MGP Illustration

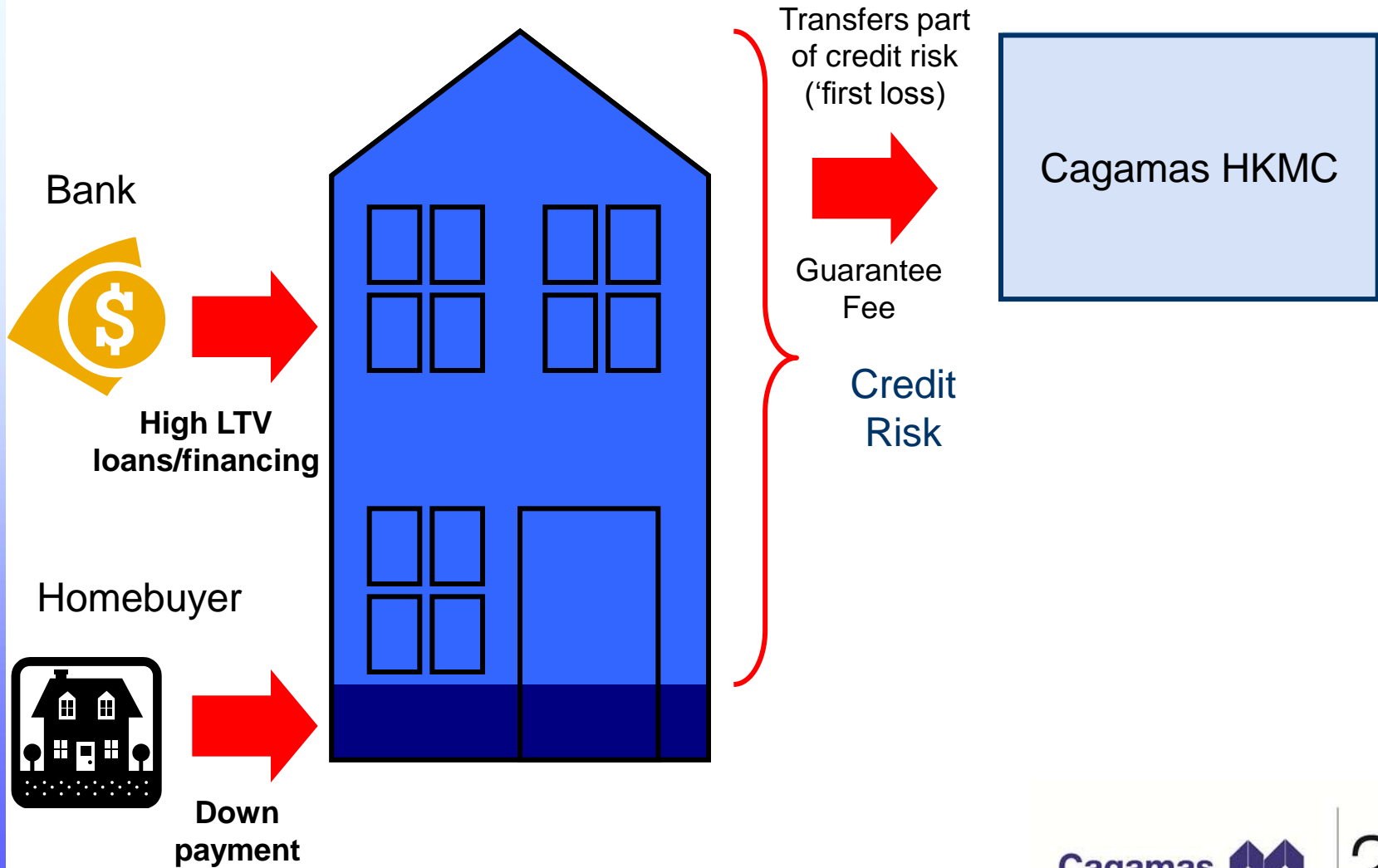
Pre-MGP Scenario





MGP Illustration

Post-MGP Scenario





Benefits of MGP

- Transfers credit risk
- Capital relief is based on BNM Risk Weighted Capital Adequacy Framework
- Facilitates management of portfolio concentration risk
- Improves Return on Risk Weighted Capital
- Improves earning stability
- Limits credit exposure to an acceptable level
- Mortgage assets remain on the balance sheet



My First Home Scheme (SRP) - Background

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- The Skim Rumah Pertamaku / My First Home Scheme (SRP) was introduced in January 2011 to assist young urban adults who have just joined the workforce to own a home
- This scheme is meant for first time homebuyers earning less than RM3,000 (or RM6,000 for joint applicants)
- The scheme allow homebuyers to obtain **100%** financing from FIs, enabling them to own a home without having the need to pay a 10% down payment
- Cagamas SRP Berhad (CSRPN), wholly owned by Cagamas Holdings Berhad, will then guarantee the first 10% on a 'first-loss' basis, whereby the guarantee fee will be borne by the Government of Malaysia (GOM)
- The provision of the guarantee will be in accordance to MGP which currently being offered by Cagamas HKMC Berhad (CHKMC) and covers both conventional and Islamic mortgage financing.

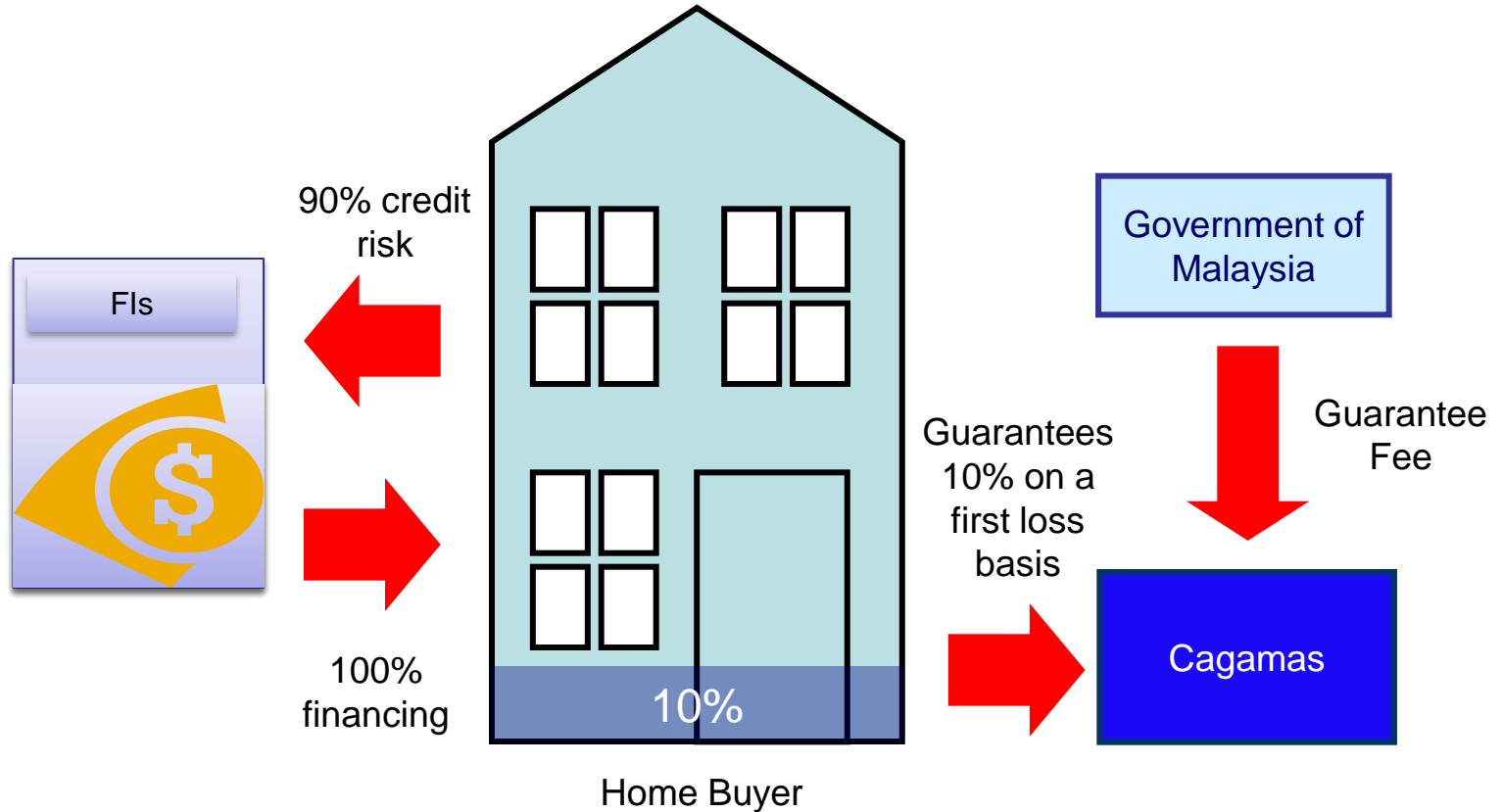


- SRP is also a mortgage guarantee product.
- The principle criteria of its applications are the following:-
 - Guarantee is on a first loss basis (i.e. first 10%)
 - Guarantee will take effect upon full disbursement or upon drawdown of the final 10%
 - Guarantee lapses upon the occurrence of one of the following event:-
 - ✓ The outstanding principal balance of the loan/financing falls below the 90% of the property value
 - ✓ Non-compliance with Representation, Warranty and Eligibility Criteria
 - ✓ Payment of Claim Amount



SRP Scheme Structure

- Structure of the SRP scheme as follows:-





THE END



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