



Building Sustainable Housing Finance System : Malaysia Experience

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September 2013

Malaysia has enjoyed several decades of growth and prosperity since the 1980s and has successfully withstood the negative impact of a series of economic crises that began with the collapse in commodity prices (1983-1984), the Asian financial crisis (1997-1998) and then the global financial crisis (2007-2009). In an environment of political, economic and financial stability, Malaysia has made great strides in promoting home ownership and also building up sustainable housing finance systems for its citizens.

Housing Finance Development in Malaysia

Since the 1970s, the Malaysian Government has been actively promoting widespread ownership of housing, especially among the lower- and middle-income groups. The main objective of the Government's housing policy is to increase accessibility to adequate, affordable and quality houses for all income groups, while priority is given to the development of low and medium-cost houses. On the financial front, Bank Negara Malaysia (BNM) (the Central Bank of Malaysia), has also recognized that the prerequisites of successful home ownership programmes are housing finance availability and accessibility. This is evident by the outstanding amount of housing loans granted by housing credit institutions (comprising of the commercial banks (including Islamic banks), the Treasury Housing Loans Division, Bank Kerjasama Rakyat Malaysia Berhad (a cooperative bank), Malaysia Building Society Berhad, Borneo Housing Mortgage Finance Berhad and Sabah Credit Corporation which totaled RM299 billion/USD90.56 billion¹ or 31% of GDP as at the end of 2012.

Building Sustainable Housing Finance System

As highlighted, the housing finance system in Malaysia comprise of a diversified range of institutions to serve various needs of the domestic economy. In view of this, we believe among the important factors that contribute to the establishment of the sustainable housing finance system in Malaysia are a calibration of government participation, active and efficient mortgage market and also the development of secondary mortgage market.

Calibration of Government Participation

Over the years, various forms of government participation has been introduced; including new measures to facilitate the housing system such as increasing supply of housing to the market, provision of adequate, affordable and quality houses, enhancing accessibility to housing finance supply and encouraging home ownership. Among the measures that have been introduced to facilitate the overall housing finance system and also to curb price speculation are given in the table below:

¹ Using USD/RM Exchange Rate of RM1 = USD0.302 as at 31st August 2013

Year	Measures
1980	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
2007	Exemption of real property gains tax 50% exemption of stamp duty on purchases of houses below RM250, 000
2008	Monthly withdrawal from the Employees Provident Fund (Account 2) for the repayment of housing loans
2009	Tax relief of up to RM10,000 a year for three years on interest paid on housing loans
2012	Revising real property gains tax (RPGT) rate from 10 per cent to 15 per cent
Ongoing	Provision of adequate, affordable and quality houses for all Malaysians in various income levels with the introduction of many affordable housing schemes e.g. Perumahan Rakyat 1 Malaysia (PR1MA) and easier access to financing e.g. My First Home Scheme. PR1MA and My First Home Scheme which were launched in 2012 and 2011 respectively.

Strengthening the Housing Finance System

The strong supervisory functions by BNM act as the main regulator for housing finance to ensure soundness and robustness of the housing finance system. The regulatory enhancements such as strengthening risk management framework and robust corporate governance practices focus towards enhancing capital and liquidity standards as well as raising their governance and risk management standards.

Areas of regulations include limiting the margin of financing for the purchase of a 3rd house and above, capital charge on mortgage financing according to its loan to value (LTV) and priority sector lending guidelines which set the financing terms and condition for the purchase of low cost house.

Recently, BNM has also adopted a measured approach to ensure Malaysia's housing market remains strong and stable. The measures were aimed at reinforcing responsible lending practices and combating the surging levels of household debt. These include capping the maximum tenure for residential and non-residential property financing at 35 years from 45 years.

Mandated Lending for Housing by BNM

Mandated lending to priority sectors including affordable housing was introduced by BNM in 1976. It was aimed at increasing the access of credit for affordable housing as well as providing eligible buyers with subsidized access to such credit. A maximum margin of 1.75% (for conventional loans) above the benchmark Base Lending Rate (BLR) and a maximum lending rate of 9% (for Islamic financing) were imposed for lending for houses costing not more than RM100,000 in Peninsula Malaysia and RM120,000 in Sabah and Sarawak. Guidelines were issued by BNM to the banking system requiring banking institutions to internally set lending/financing target for the priority sectors which include housing loans to purchase low cost houses.

Development of Secondary Mortgage Market: Cagamas Berhad

Cagamas commenced operations in 1987 as the national mortgage corporation to support the national objective of achieving widespread housing ownership and promoting the development of long-term capital market in Malaysia i.e. to convert illiquid housing loans in the books of financial institutions into liquid and tradable securities.

Over the ensuing 25 years, Cagamas cumulatively purchased housing loans and Islamic house financing in the secondary market equivalent to RM104 billion for the financing of 1.7 million houses. To fund its purchases of housing loans/financing from the financial institutions, Cagamas issued bonds/sukuk of varying tenures to match the underlying pools of housing loans/financing. These Cagamas bonds/sukuk served as a catalyst for the development of the private debt securities (PDS) market in Malaysia. From its modest beginnings, Cagamas evolved over the next quarter of a century to become one of the largest issuer of triple-A-rated PDS in Malaysia. At the same time, Cagamas progressively broadened its product base by purchasing other types of loans, including industrial property loans, hire-purchase and leasing debts and personal loans/financing but did not lose sight of its primary role of supporting affordable home ownership for Malaysians.

The overall impact of Cagamas to the housing finance system in Malaysia is summarized as follows:

- It has enhanced the liquidity of the financial system in providing housing finance through its Purchase With Recourse (PWR) scheme. As of June 2013, it has provided liquidity of RM267.4 billion to the financial sector, especially in times of financial/liquidity crisis
- It has improved housing affordability by providing banking institutions with funds at reasonable cost through its ability to generate high investor demand for its AAA-rated issuances of Cagamas bonds/sukuk. The responsiveness of financial institutions in extending the tenure of housing loans of up to 35-40 years, has also made home ownership more affordable.

- Cagamas has contributed to greater financial stability by removing the maturity mismatch inherent in the financial system by enabling originators of housing finance to better match the maturity structure of their housing loan/financing to the source of funds.
- Cagamas has also fulfilled its additional role of spurring the development of both the PDS market in Malaysia through regular and large issuances of bonds and sukuk with multiple tenures to form a benchmark yield curve. Today, Cagamas is one of the largest and leading issuer of private debt instruments in the country, accounting for 8% of total outstanding corporate debt securities and 21% of all outstanding AAA rated securities as at end-June 2013.
- In support of maintaining Malaysia's position as the largest sukuk market in the world, Cagamas continued to play an active role in advancing the presence and diversity of Islamic finance by introducing new and innovative Islamic products in the financial market. Being a pioneer in launching Malaysia's first-ever Islamic Residential Mortgage Backed Sukuk Musyarakah of RM2.05 billion in 2005, most of the Cagamas' Islamic issuances have received recognition and awards including the Malaysian Innovation of the Year for its RM1 billion Sukuk al-Amanah Li al-Istithmar (Sukuk ALIm) in 2011. Cagamas has also won the Most Innovative Deal category for its RM500 million multi tenure Sukuk Wakala Bil Istithmar awarded by the Hong Kong financial publication, The Asset this year. All of these issuances are testament in reinforcing Cagamas' support to make Malaysia a global Islamic finance hub.

Conclusion

In Malaysia, both the public and private sectors play an important role in promoting home ownership through the provision of housing finance at reasonable cost to all home buyers, particularly to the lower income house buyers. The Malaysian Government is committed to the noble aim of creating a prosperous and harmonious home-owning democracy. In support of this national objective, various measures have been put in place to enhance the effectiveness of the housing finance. In the years ahead, the Government is expected to continue with its efforts to further upgrade the efficiency of housing finance in Malaysia while active and efficient mortgage market will also contribute in developing sustainable housing finance system in the country. The establishment of Cagamas as an integral part of the financial infrastructure played an important role in the promotion of home ownership and the development of the capital market in Malaysia. As of now, Cagamas had successfully delivered on its missions as a secondary mortgage liquidity facility to financial institutions in the promotion of house ownership and in supporting the development and growth of the bond market in Malaysia.

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