

## Malaysia: Housing Sector Update

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### Update on Secondary Mortgage Corporation in Malaysia – Cagamas Berhad

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The year 2014 began on a positive note with growth prospects for the world's largest economies looking more promising than in 2013. Growth in the major industrial countries has become more broad-based. However, financial markets are expected to remain volatile as the world adjusts to the phase and magnitude of withdrawals of Quantitative Easing by the major advanced economies. The Malaysian economy is expected to benefit from rising exports following faster global growth, with domestic demand remaining supportive. Real GDP in Malaysia is expected to expand at a faster pace of 5% to 5.5% in 2014.

As at end-2013, Malaysia's outstanding bank lending to the household sector grew by 12% to RM690.6 billion (US\$212.5 billion)<sup>1</sup> or 70.2% of GDP. The growth continued to be largely driven by lending for the purchase of residential and non-residential properties. The composition of bank lending to households remained broadly unchanged, with lending for the purchase of properties continuing to account for the bulk (56.5%) of total household loans from the banking system.<sup>2</sup> The continued strong growth in lending for housing and motor vehicles reflects the demographic profile of a relatively young and growing working population with increasing affluence.

Cagamas as the only Secondary Mortgage Corporation in Malaysia, remains committed to its mandate of helping Malaysians gain access to affordable and competitive home financing. Cagamas has been instrumental in developing liquidity to primary lenders in the housing market in Malaysia. It purchases housing loans, hire purchase and leasing debts, industrial property loans, credit card receivables, through raising funds by the issuance of debt securities such as bonds and Sukuk. The provision of liquidity at a reasonable cost to the primary lenders of housing loans encourages further financing of houses at an affordable cost.

Beyond the provision of liquidity, Cagamas has also evolved to become a provider of risk and capital management solutions provider to other asset classes as well. This includes Cagamas' promotion of products such as mortgage guarantee programme and its involvement in the synthetic securitisation in the Small Medium Enterprise (SME) sector. Cagamas has also become a credible partner of the Government in a home ownership initiative to address the issue of affordability among young adults to own their first home (My First Home scheme).

Since its establishment 28 years ago, Cagamas has cumulatively purchased housing loans and Islamic house financing in the secondary market equivalent to RM111 billion (US\$34 billion) for the financing of 1.8 million houses. As at the end of 2013, Cagamas remains as the largest and leading issuer of private debt securities (PDS) in Malaysia, making up 8 percent of Malaysia's current outstanding PDS and an even higher 25 percent of the country's outstanding AAA-rated corporate debt securities. Cagamas is also the leading issuer of Islamic bonds in Malaysia's Islamic capital market.

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<sup>1</sup> Ringgit Malaysia (RM) translated at RM3.25/USD as at 8 May 2014.

<sup>2</sup> Bank Negara Malaysia, Annual Report 2013

The Cagamas model is well regarded by the World Bank as a successful secondary mortgage liquidity facility. Cagamas is the leading issuer of AAA debt securities in Malaysia as well as one of the top Sukuk issuers in the world. Since incorporation in 1986 till end 2013, Cagamas has cumulatively issued RM275.5 billion of conventional bonds and Sukuk. Cagamas' debt securities continue to be assigned the highest ratings of AAA and P1 by RAM Rating Services Berhad and AAA/AAAID and MARC-1/MARC-1ID by Malaysian Rating Corporation Berhad, denoting its strong credit quality. Cagamas is also well regarded internationally and has been assigned local and foreign currency long-term issuer ratings of A3 by Moody's Investors Service Inc. that are in line with Malaysian sovereign ratings.

In financial year ended 31 December 2013, Cagamas recorded a profit after tax of RM425.0 million (US\$135.4 million). Its shareholders funds amounted to RM2.5 billion (US\$0.8 billion) and its Risk Weighted Capital Ratio (RWCR) stood at a healthy 24.3 percent. In comparison, the average RWCR of the banking sector in the corresponding period stood at approximately 15 percent.

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