

Examining the Development of Malaysia's Housing Finance Market

A stylized, layered illustration of a town. In the foreground, a white bicycle with a basket is parked on a path. Behind it, various houses in shades of white, beige, and light blue are arranged. There are also trees and bushes in similar colors. The background is a light blue sky with soft, white clouds.

Leong See Meng

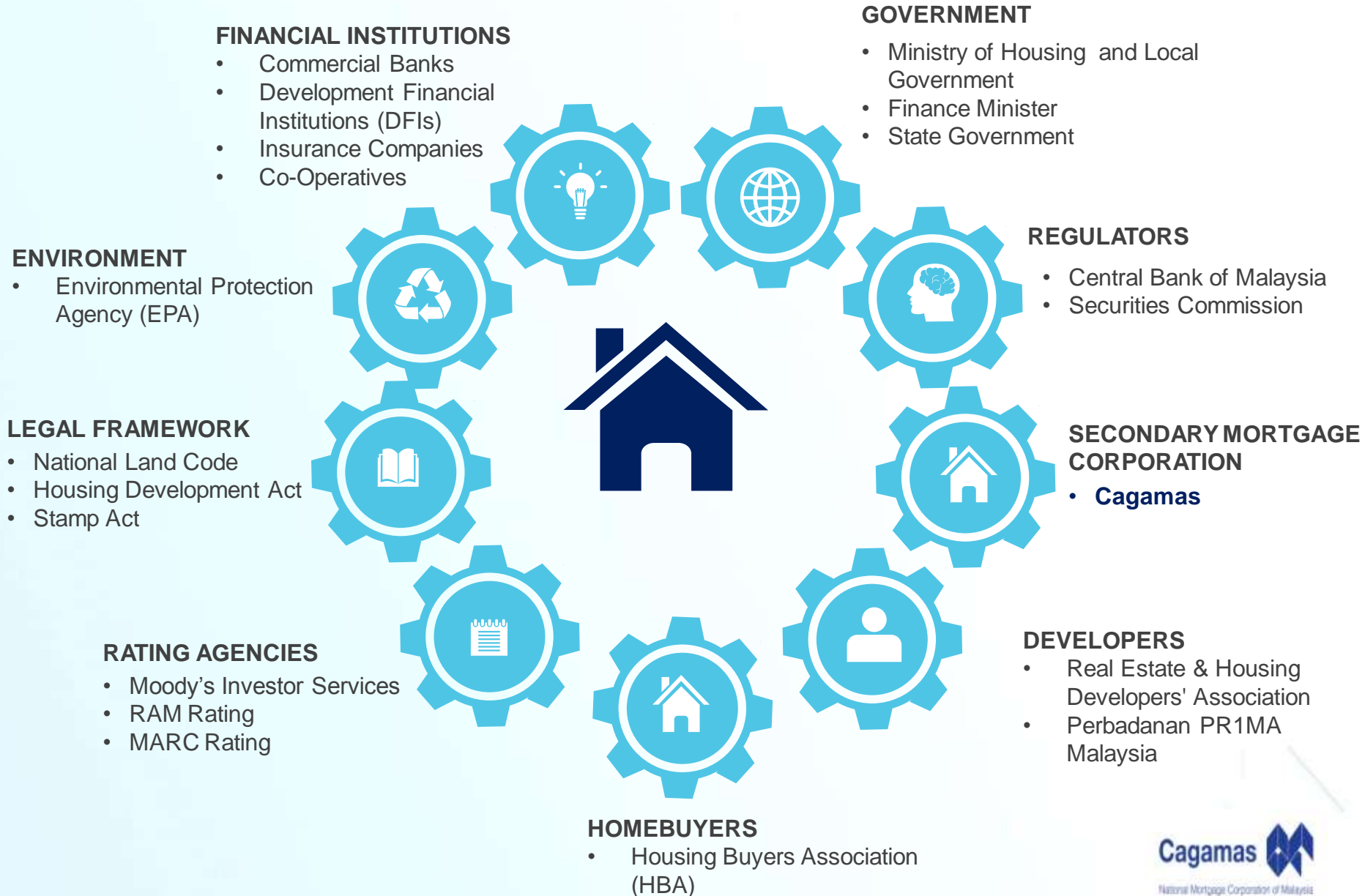
Senior Vice President

Corporate Strategy & Communications

Cagamas Berhad

10 April 2019

KEY STAKEHOLDERS





Delving into financial institutions' exposures to the property market

Housing Finance Market



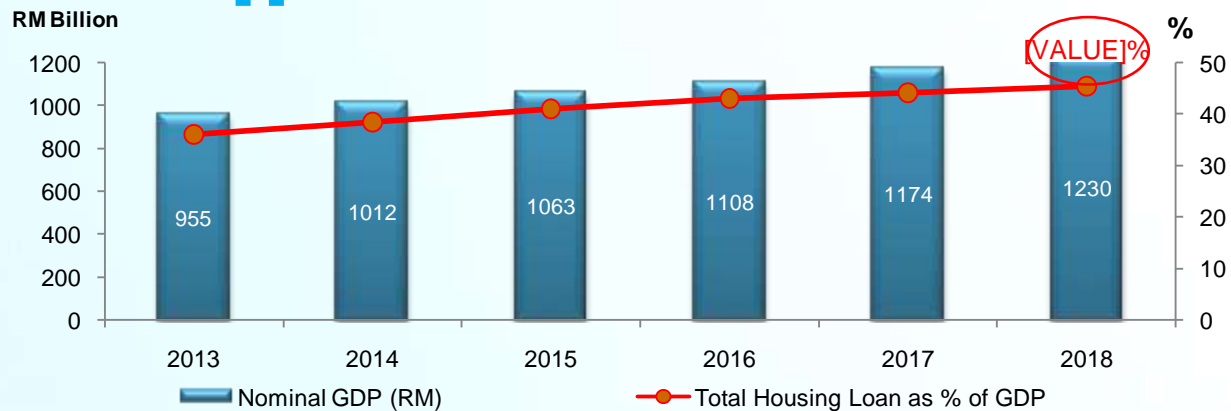
Mortgage Originators in Malaysia:-

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 Government 	<ul style="list-style-type: none"> Cagamas Berhad

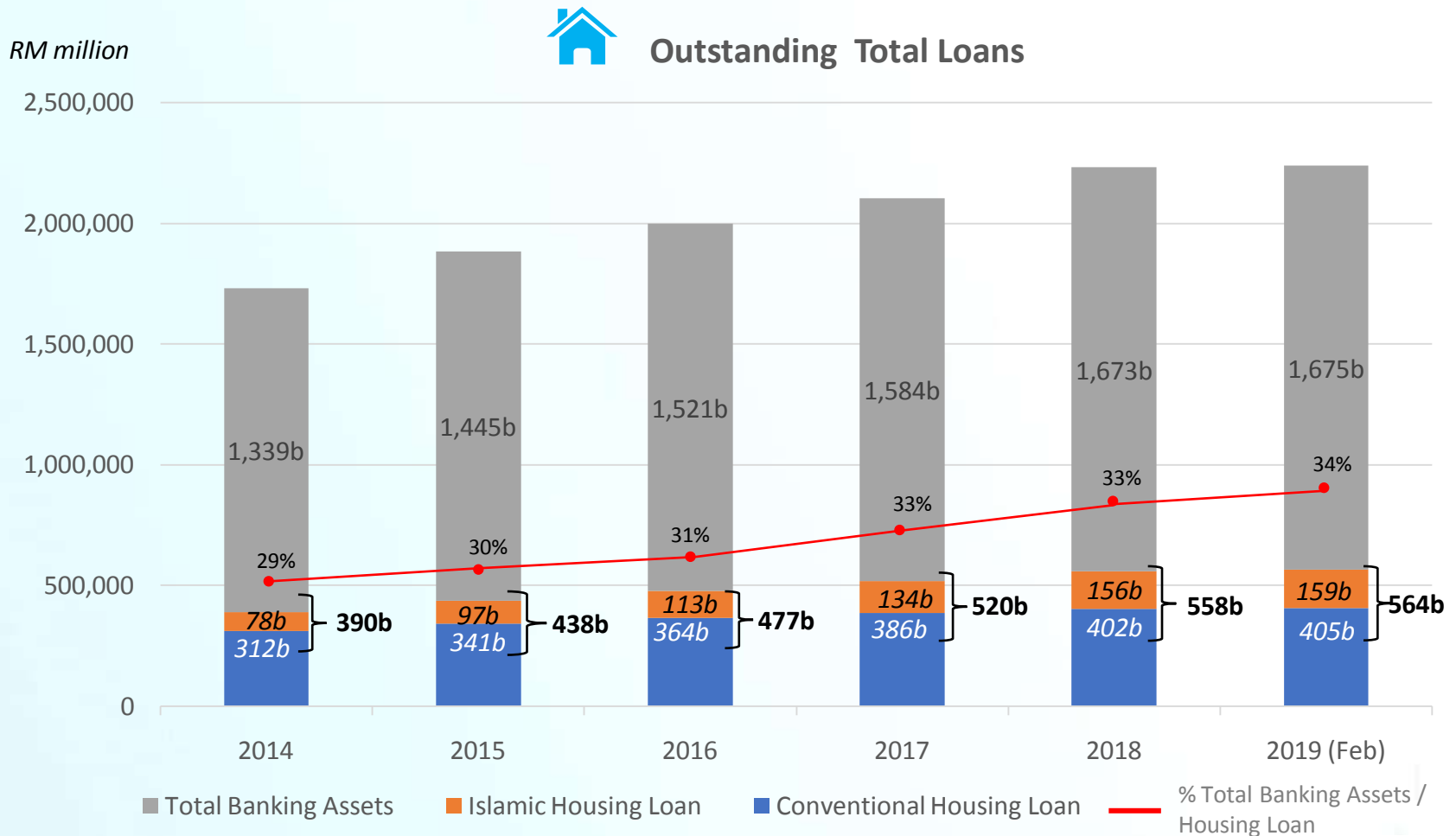


Housing Loans Outstanding to GDP:-



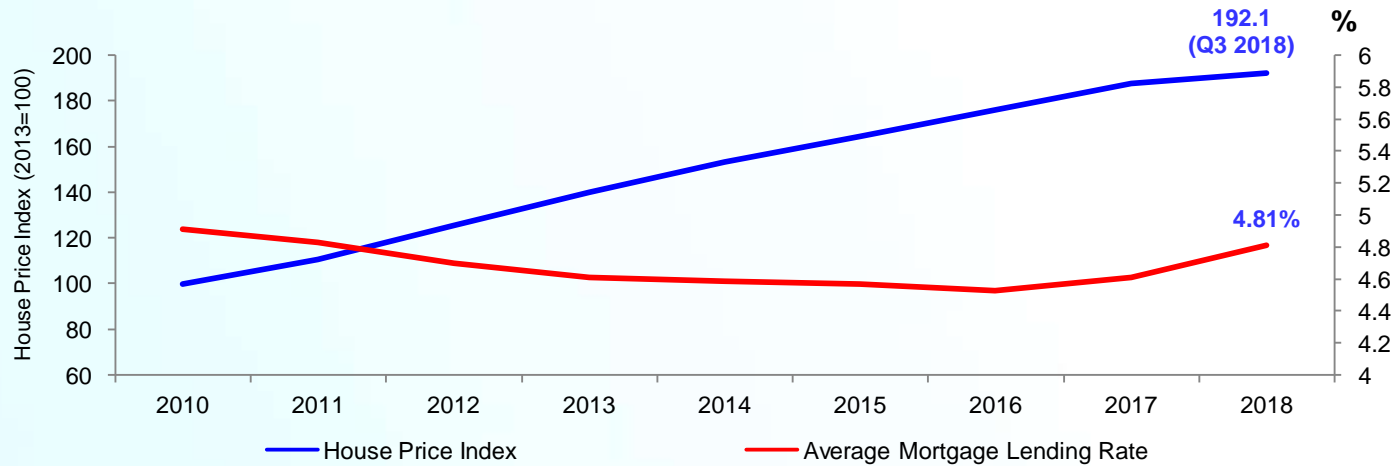
Housing Finance Market

Financial Institution Total Banking Asset and Housing Loan Exposure

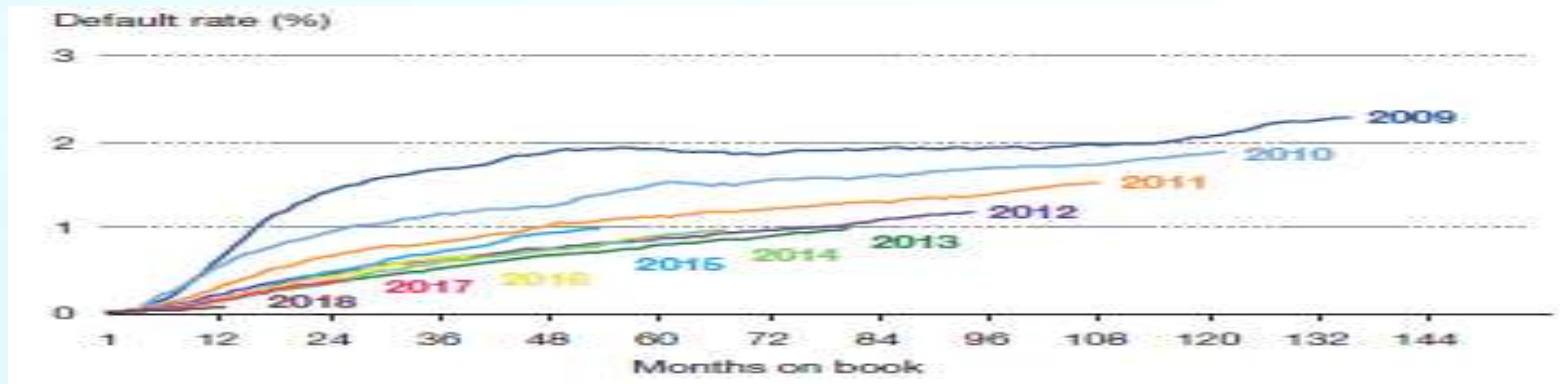


Housing Finance Market (cont'd)

House Price Index and Mortgage Rate :-



Default rates of housing loans improved since 2009:-



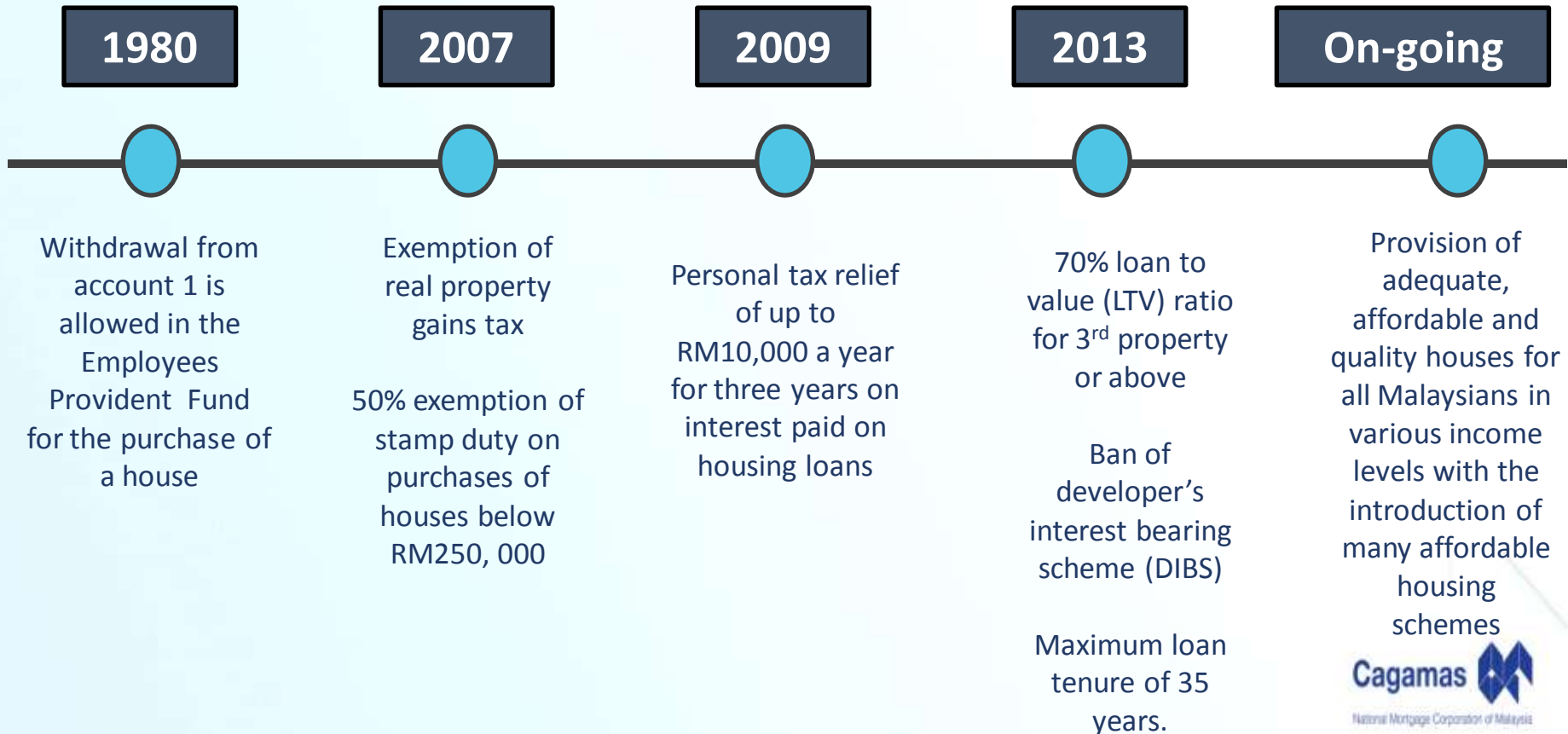
CHARACTERISTICS OF HOUSING LOANS IN MALAYSIA

	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

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 :



Home Ownership: Government's Policy



National Housing Policy (2018-2025)

The new National Housing Policy has outlined five focuses, 16 strategies and 57 action plans that will be implemented over three phases (2018-2020, 2021-2023, 2024-2025), revolving around 5 core themes:

- Quality housing for all
- Improving accessibility and affordability
- Cohesive and quality neighbourhood
- Improving coordination between housing development and transportation
- Strengthening institutional capability for the NHP

Objective of the new National Housing Policy

To solve the supply and demand mismatch in the housing sector, as well as helping low-income earners to own a home

The NHP in a glance

Gather public and private sector resources to solve demand and supply mismatch to help low income earners to own homes

Emphasis on the B40 = main focus for the next 5 years

Holistic approach in handling housing issues faced by the low income group – National Home Ownership Campaign, National Community Policy and National Affordable Housing Council

Rent-to-Own schemes will enable low income earners to build up their credit scores (CCRIS) through monthly rental payments

Clear guidelines under the Affordable Housing Policy for developers to build at minimum, 900 sqft quality affordable homes for the B40 group complete with amenities and infrastructure

Targeting 1.0 million homes over two governing terms translating to 100,000 homes a year

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.

RM1 = USD4



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

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

Roles in Housing Finance System

- Catalyst for the Government's and Central Bank's initiative for the economy and financial sector
- 3 key areas for Cagamas :-

1

Promotion of home ownership/home accessibility and affordability in Malaysia

2

Enhance and support in the stabilization of the financial sector in Malaysia

3

Development of the Malaysian Capital Market

1

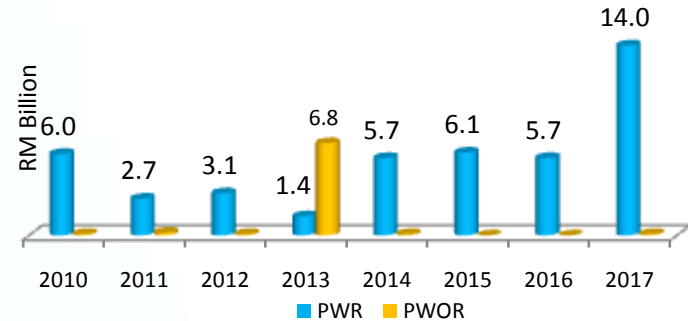
Promotion of home ownership/home accessibility and affordability in Malaysia



Asset Purchased of PWR/PWOR

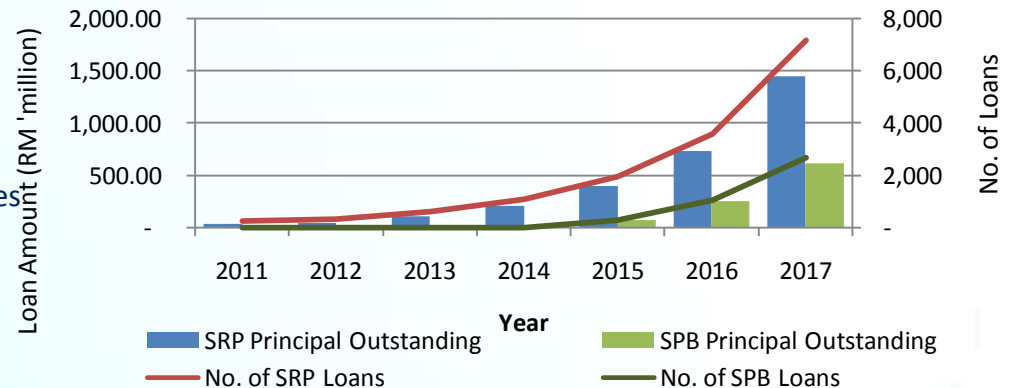


- Significant PWR purchase of RM14 billion in 2017 was due to FIs meeting net stable funding ratio (NSFR) for more stable funding requirements by 2019 and the need to maintain Liquidity Coverage Ratio (LCR) as part of implementation of BASEL III regulations.



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 2018, guarantee provided by CSRP has enabled 18,000 individuals/household to own their first home



Cumulative Refinanced Housing Loans



Cagamas has cumulatively refinanced housing loans in the secondary market equivalent to **RM153 billion** or around **1.97 million houses**

RM Billion

Houses in Million



Roles in Housing Finance System (cont'd)

2

Enhance and support in the stabilization of the financial sector in Malaysia

- **Provide proactive asset and liability management solutions**
- **Conduit to remove systematic risk in the financial sector due to Cagamas' role as a liquidity provider and often as a "lender of second last resort"**

3

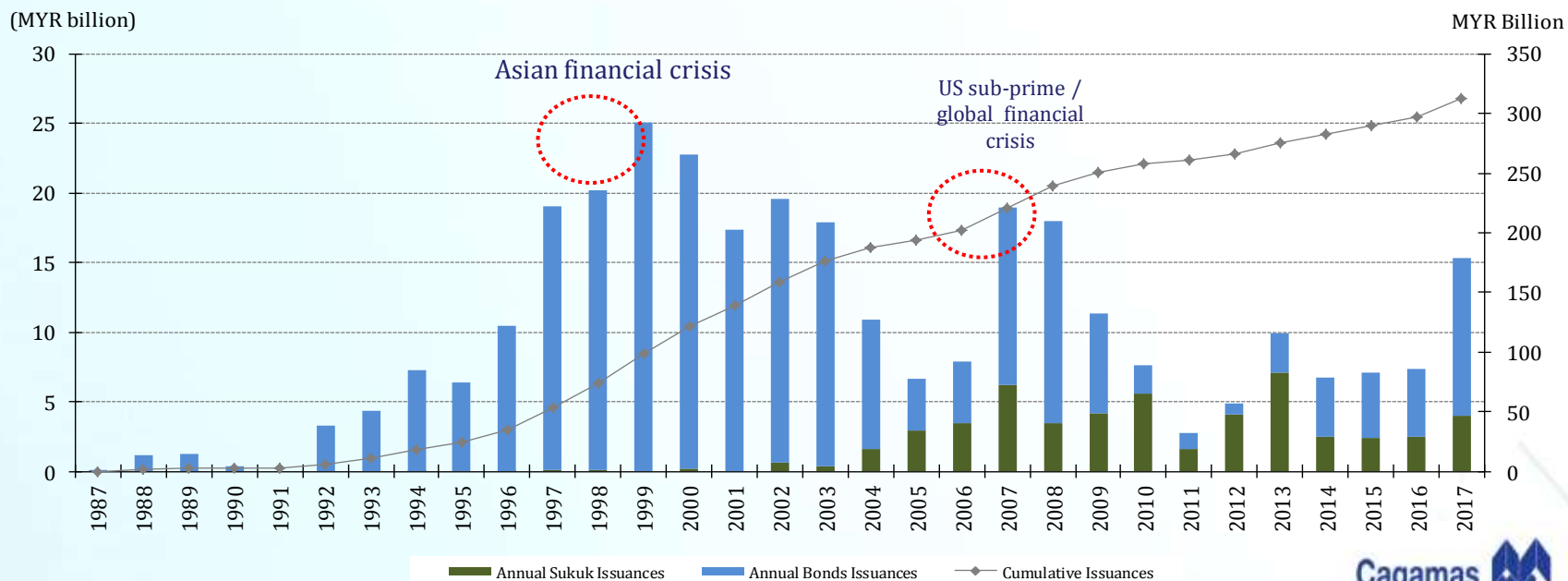
Development of the Malaysian Capital Market

- **Enhance the quality of capital securities market** – structuring of high investment grade instruments
 - Approx. 24% of AAA outstanding Malaysian Private Debt Securities (PDS) market
 - Approx. 55% of AAA outstanding Malaysian Asset Backed Securities (ABS) market
- **Contribute to the depth and breadth of capital market** – structuring of sophisticated instruments
- **Significant player in the capital securities market - Linking the mortgage market to the capital market**
 - Development of the Residential Mortgage Backed Securities (RMBS) market for both conventional and Islamic (1st RMBS issuer in Malaysia (April 2004))
 - 2nd largest issuer after the Government of Malaysia
- **Providing an alternative form of investment in quality private capital securities**
 - Large volume of highly-rated multi-tenor Cagamas capital securities has given investors new instruments for investing their surplus funds

Systemically Important to Domestic Financial System...

underscored by its dual function as liquidity provider and as a leading issuer of conventional and debt securities and sukuk

- Provide credit and portfolio risk management solutions
- Provide capital management solutions
- Conduit to remove systemic risk in the financial sector
- Conduit for best practices & setting up of standards – development of conforming financing standards
- Cagamas Group has issued papers worth MYR312.1 billion to the financial market and has successfully redeemed MYR272.5 billion with not even a single technical default as at December 2017



Impact of Cagamas' Establishment

Reducing maturity mismatch

Contribute to greater financial stability by reducing the maturity mismatch in banking system

Enhance liquidity

Enhance liquidity to the financial sector including during times of liquidity crunch

Development of Capital Market

Spurring development of Corporate Bonds/ Sukuk market in Malaysia



Funds at reasonable cost

Providing Financial Institutions with funds at reasonable cost through its ability to generate high investor demand for its issuances

Issuances of quality papers

Enhancing the quality of the Malaysian capital market from issuances of quality credit papers

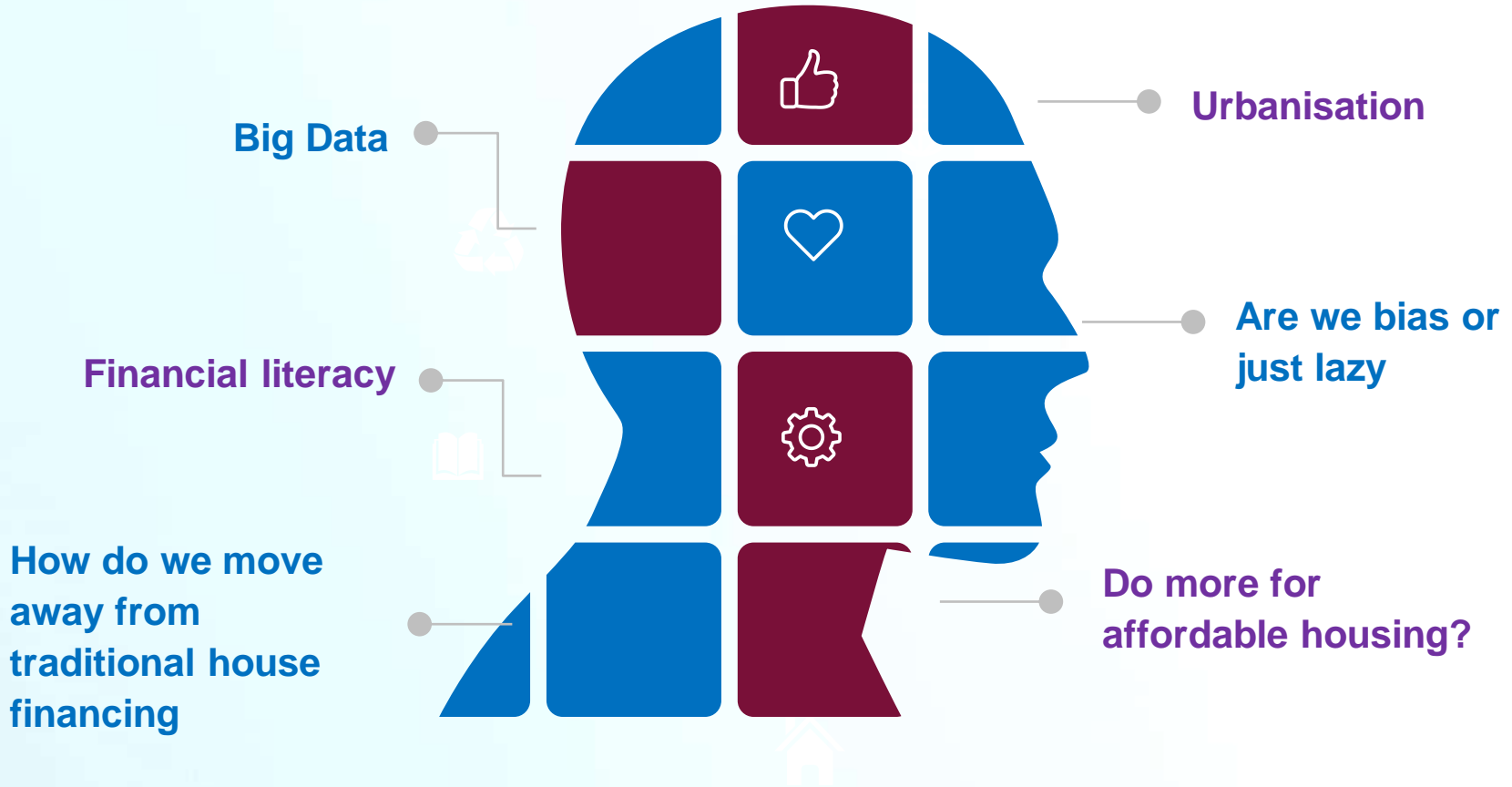
Innovative Sukuk

Providing innovative sukuk to cater for the growth in Shariah compliant instrument in Malaysia



Outlining options for strengthening existing frameworks for the secondary mortgage market

HOUSING 2.0



URBANISATION

The new economy means people are transient, always moving based on their job



IMPACT : demand for housing soaring - land price increased - no money to buy house - slums - community led development - conurbation



ASIAN paradigm to own a homes but **RENTING** maybe the solution

MIGRATION

Internal migration constitutes about 88.7% of all migration in Malaysia (63.9% intra-state and 24.8% inter-state), while international migration only makes up the remaining 11.3% (UNESCO 2017)

About half of the population in Selangor and Kuala Lumpur were born in other states.

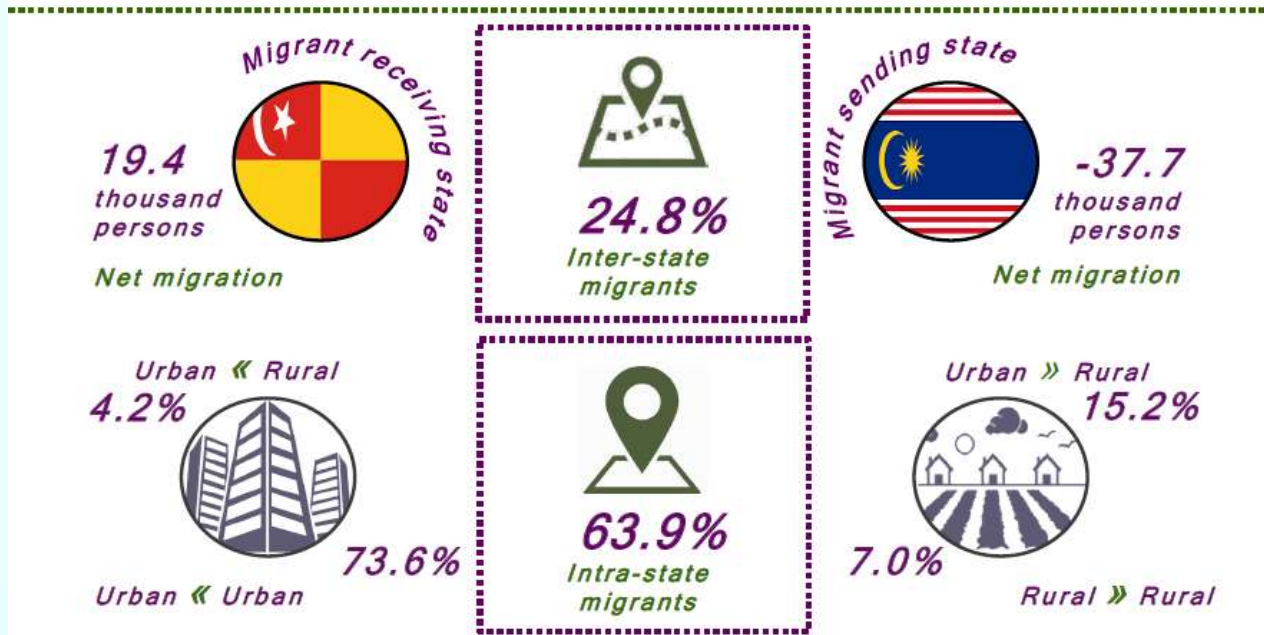
In 2011 urban-urban migration constituted only 58.5% of all internal migration whilst in 2015-2016 internal migration in Malaysia was primarily urban-to-urban (73.6%). (Department of Statistics 2017a).

The main migration suppliers are Kuala Lumpur and Perak, while the main destinations for migrants are Selangor, Pulau Pinang, and Johor (Department of Statistics 2017a).

The Klang Valley conurbation that is one of the fastest-developing in the world (Knight Frank 2017)

URBANISATION

INTERNAL MIGRATION



REASONS FOR MIGRATION



URBANISATION

SOCIOECONOMIC CHARACTERISTICS OF INTERNAL MIGRANTS


Internal migrants

Labour force
participation
rate

76.7%




88.8%


63.7%

Employed internal migrants


1.3%
Employer


84.3%
Employee


12.2%
Own account worker


2.2%
Unpaid family
worker


36.2%
Skilled
workers


49.5%
Semi-skilled
workers


14.3%
Low-skilled
workers

Detailed explanation on occupational classifications can be referred to Item 11.14 in Technical Notes on page 77.


6.6%
Agriculture

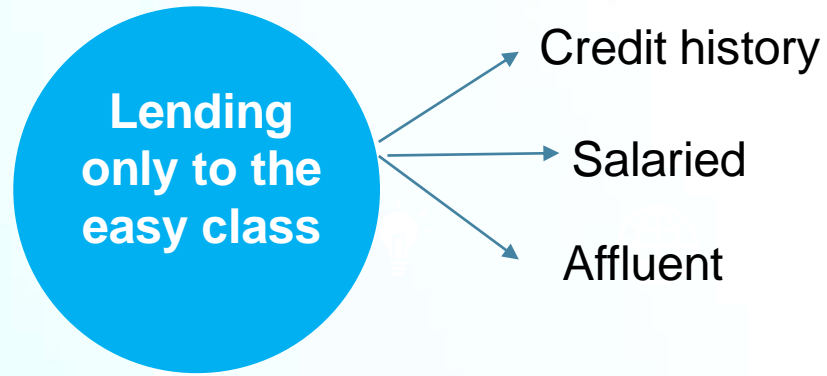

1.1%
Mining &
quarrying


17.1%
Manufacturing

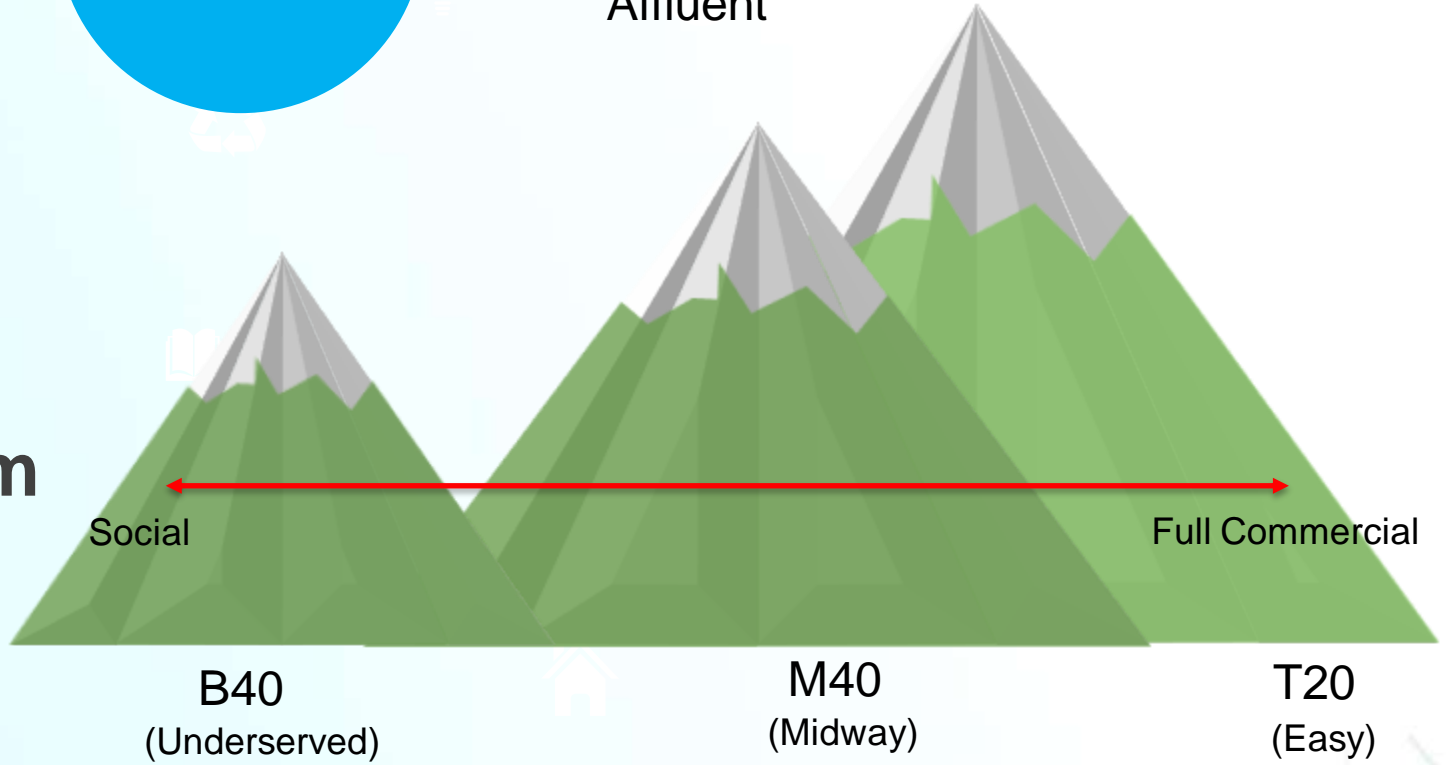

12.0%
Construction


63.3%
Services

ARE WE BIAS OR JUST LAZY?



Housing Finance Continuum



DO MORE FOR AFFORDABLE HOUSING?



HOUSING GAPS

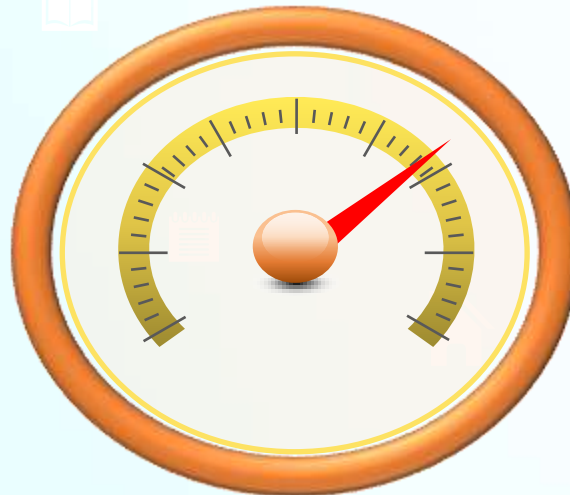
Demand vs Supply
Land vs Housing
Income
Access to credit



High cost of living,
no savings, no
regular income

Can people afford to buy a house?

House Price : Annual Income



Most Affordable

Most Unaffordable

Solution : Build cheaper homes through technology eg. Digital IBS

HOW DO WE MOVE AWAY FROM TRADITIONAL HOUSE FINANCING

Find financing opportunities for B40 and M40

Rent to Own Scheme

Shared Equity Scheme

Fintech

Credit Guarantee Scheme

Micro financing scheme

FINANCIAL LITERACY

B40

perhaps **M40** too

- There are sharper than we assume
- They may not use spreadsheets nor completed algorithm, but they are manage every month, paying rent and making ends meet : surviving
- Financial literacy is there
- We need to work with them at a level they can relate to
- Complicated spreadsheets or financial planning model will scare them away

REVOLUTIONISE LIFE FOR THEM

NEED BIG DATA?

Developers caught in rut as demand for affordable housing higher than supply, with expensive homes unsold

Published 1 month ago on 09 March 2019 By Jerry Choong



Home prices on average have hit RM773,000 in KL and RM497,000 in Selangor, making them over 100 and 80 per cent respectively higher than a decade ago.

KUALA LUMPUR, March 9 — Malaysian property developers are in a conundrum of more expensive houses remaining unsold even as demand exceeds the supply of affordable housing.

The Straits Times reported that only a quarter of homes launched nationwide between 2016 to March 2018 cost under RM250,000, and for the first time in a decade the overall House Price Index fell on a quarterly basis last year.

Home prices on average have hit RM773,000 in KL and RM497,000 in Selangor

Report: Malaysia lacks affordable housing

www.malaysiakini.com

9 Mar 2019, 2:41 pm (Updated 9 Mar 2019, 5:14 pm)

There is a shortage of affordable housing in Malaysia with only a quarter of houses launched nationwide from 2016 to March last year priced under RM250,000, a news portal reported today.

According to Singapore's Straits Times, as of 2016, there were 7.5 million households against fewer than 5.8 million available homes.

In Kuala Lumpur, the average home price stands at RM773,000 while in Selangor, it hit RM497,000 by the third quarter of 2018. These prices, according to the report, is over 100 percent and 80 percent higher respectively than a decade ago.

Residential Market Status

Overhang (Completed)



▲ 1.8%

Value : RM15.68 bil

Types :

Flat/condo/Apartment: 10,238 units (40.6%)

State :

- 1. Johor - 5,002 units
- 2. Penang - 4,092 units
- 3. Selangor - 3,765 units

- Price range :
- 1. Below RM100k - 7,931 units (31.5%)
 - 2. RM300k - RM500k - 7,447 units (29.6%)
 - 3. RM500k - RM1 Mil - 6,179 units (24.5%)

StraitsTimes

Usage of non-linear data will add new dimensions to solutions

CAFÉ INDEX

Mushrooming cafés in your neighbourhood?

This could be a good sign for potential upside of your property price.



BIG DATA



NASI LEMAK INDEX

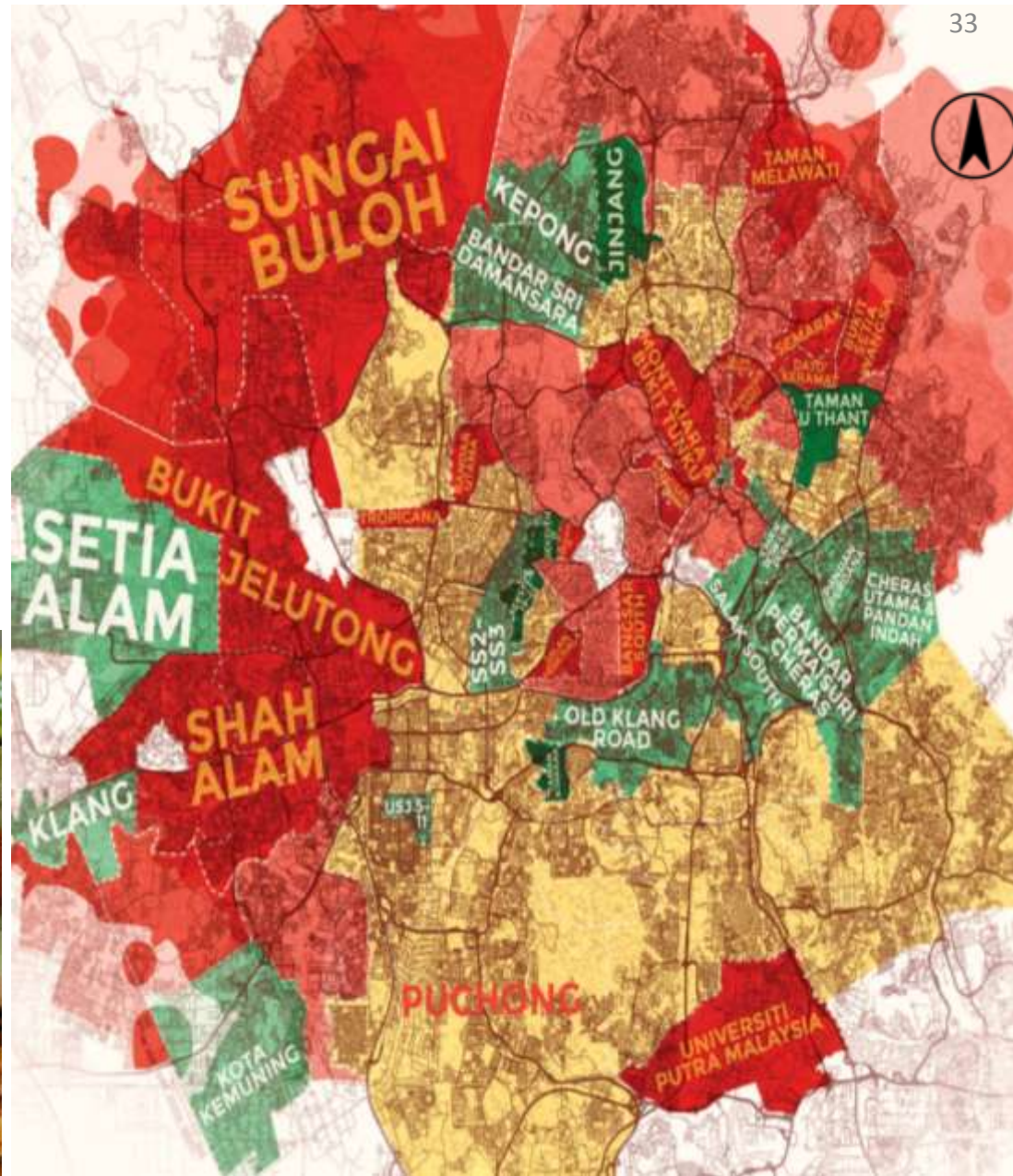
How does the city feed its people?

We track the density of halal and non-halal establishments serving food priced under RM15 to see where different communities live.



NASI LEMAK INDEX

	MOSTLY NON-HALAL FOOD
	MORE NON-HALAL FOOD
	NEUTRAL
	MORE HALAL FOOD
	MOSTLY HALAL



KEY TAKEAWAYS

- i. **HOUSING CANNOT BE RANDOM ACTS OF BUILDING**
- ii. **GOVERNMENT SUPPORT** is **PIVOTAL** for Affordable Housing schemes
- iii. **RENTAL HOUSING** is a missing piece in the overall housing policy across Asia as an important pillar for affordable housing program;
- iv. **BIG DATA** for demand and supply of affordable housing analysis can improve effective allocation of public and private resources in addressing the major gaps in the market;
- v. **A HOLISTIC URBAN PLANNING APPROACH** incorporating affordable housing policy for effective utilisation of land and funding is a key success factor;
- vi. Numerous **INNOVATIVE FINANCING SOLUTIONS** have been introduced globally and can be adapted locally;



THE END