

More SME loan deals in store

Cagamas: Banks to consider option for risk management

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NATIONAL mortgage company Cagamas Bhd is optimistic that banks will continue to look at small and medium enterprise (SME) loan securitisation as an option for risk management and funding, said president and chief executive officer Steven Choy.

"Going forward, we do expect more SME loan securitisation deals in the market as it is an effective method of managing risk at a reasonable cost. We are in constant contact with banks and there is a lot of interest.

"A couple of banks are ready to go at any time. In fact, we are working very hard to secure a deal for a synthetic securitisation of SME loans this year but the timing is crucial," he told StarBiz.

Only one securitisation of SME loans has been completed so far in the Malaysian market - Cagamas' synthetic securitisation of SME loans in 2007 for Malayan Banking Bhd worth RM600mil.

Securitisation of SME loans involves the repackaging of a portfolio of SME loans into a special purpose entity which will then issue credit-linked notes based on the SME portfolio.

The securitisation transaction can be fully funded or synthetic.

In a fully-funded securitisation transaction, the entire amount is funded through the issuance of credit-linked notes while the transaction for synthetic securitisation involves the transfer of credit risk from a pool of SME loans to investors.

For synthetic securitisation, the pool of SME loans continues to be funded and remains on the banks' balance sheets.

However, Choy admitted that it may not be the best time for securitisation deals at the moment as such transactions must make economic sense to banks before they

Bank lending indicators for the SME segment

	(RM bil)			Annual Growth (%)		
	Apr '09	May '09	Jan-May '09	Apr '09	May '09	Jan-May '09
Loan applications	8.5	7.6	36.3	-14.2	-15.1	-15.5
Loan approvals	3.3	4.0	16.2	-41.2	-14.6	-29.9
Loan disbursements	11.3	10.8	56.7	-17.7	-18.7	-15.1
Change in loans outstanding*	-0.6	0.2	-7.2	-1.2	-1.7	-1.7

* The annual growth in outstanding amount as at end-period.

The decline in SME loans outstanding partly reflected the exclusion of a number of companies from the SME classification, as they had grown beyond the definition of SME.

Without such exclusion, SME loans outstanding would have expanded by 1.7% year-on-year as at end-May 2009.

Source: Bank Negara Statistical Bulletin, May 2009

could be done.

In current market conditions, investors were more risk-averse and may not rush to subscribe to the papers, he said, adding that they would also demand a wider credit spread/yield for the risk that they were taking.

"If banks do not make much out of the deal, then they may not be interested. It will take time but we believe once the market returns to normal, interest in such products will come up again.

"We have the structure in place and it will be easy for us to do the next transaction," Choy said.

That said, Choy views synthetic securitisation of SME loans as appealing to banks in the current environment.

"For banks that wish to improve their capital adequacy ratio, the synthetic structure allows them to achieve this without the need to raise new funding.

"This works well for banks that have ample liquidity (to continue to fund the loans on balance sheet) but would just want to offload credit risk," he said, adding that the synthetic structure could also be used for other asset classes such as housing and hire-purchase loans.

OCBC Bank (M) Bhd, which has been one of the stronger banks in SME financing, does not rule out the possibility of securitising its SME loans in future.

The bank has been growing its SME loans at a rate of 35% for the past two years.

However, OCBC director and chief executive officer Jeffrey Chew said any action plan would need to be cost efficient. He pointed out that given OCBC's strong capital and liquidity position, coupled with the prevailing sluggish demand for SME loans, there were fewer drivers for the bank to undertake any securitisation currently.

"It will continue to be a viable alternative for banks that wish to re-balance their portfolio positions," he said.

The declining loan numbers in the SME segment and possible higher default rates could also hamper the increase in SME loans securitisation deals.

According to Bank Negara's statistical bulletin for May, loans approved and disbursed for the SME segment have dropped, reflecting banks' declining risk appetite for the segment.