

THE EFFECTIVENESS OF CAGAMAS ROLE
ON THE INTEREST RATE CHARGED ON
HOUSING LOAN

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ABSTRACT

This project paper is mainly focusing on the effectiveness of Cagamas role towards the affordability level for the public to own a house. It is believed that the establishment of Cagamas can help the financial institutions with flexibility to enhance their lending to the borrowers. This happens through the purchases of housing loan by Cagamas from those financial institutions.

Thus, in order to examine the relationship between the Cagamas role and interest rate, few series of analysis such as Time Series Processor (TSP) package and growth analysis has been conducted. It was noted that very small variation in interest rate can be explained by the purchases of housing loan made by Cagamas. In fact, it is revealed that almost no relationship between those variables exists. The analysis on interest rate also indicates that the variability in commercial banks' trend is higher compared to financial institutions. Furthermore, there is no relationship between the performance of those institutions.

For the study to be more in-depth, the role of Cagamas is been analyzed again, but in different perspective. Again, regression through the Time Series Processor (TSP) package is conducted, for the purpose of examining the correlation of Cagamas role with the disbursement of housing loan by financial institution. It indicates that there is a relationship between those variables. However, the explanatory power of Cagamas operation towards the housing loan disbursement is considered as weak.

Thus, the role of Cagamas in purchasing the housing loan from various financial institutions is not significant to the variation of interest rate. Hence, it cannot help to bring down the cost in home ownership for the public to a more affordable level. However, the flexibility provided to the financial institutions as well as to the prosperity in capital market through its existence, should be respected.

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TABLE OF CONTENTS

<i>Acknowledgement</i>	<i>i</i>
<i>Abstract</i>	<i>ii</i>
<i>Table of Contents</i>	<i>iii</i>
<i>List of Tables</i>	<i>v</i>
<i>List of Figures</i>	<i>v</i>
<i>List of Appendices</i>	<i>vi</i>
CHAPTER 1 : INTRODUCTION	
1.10 Introduction	1
1.20 Objectives of the Research	2
1.30 Methodology	3
1.40 Scope and Limitation	4
CHAPTER 2 : LITERATURE REVIEW	
2.10 Literature Review	6
CHAPTER 3 : RESIDENTIAL SECTOR IN MALAYSIA	
3.10 An Overview Before the Establishment of Cagamas	11
3.20 An Overview After the Establishment of Cagamas	12
3.30 Cagamas	15
CHAPTER 4 : ANALYSIS OF THE STUDY	
4.10 Hypothesis	21
4.20 Methodology of the Analysis	25
4.30 Data Sources	37
4.40 Hypothesis Testing	38
CHAPTER 5 : FINDINGS	
5.10 First Analysis	44
5.20 Second Analysis	48
5.30 Third Analysis	51
5.40 Fourth Analysis	55

CHAPTER ONE**INTRODUCTION****1.10 INTRODUCTION**

The residential sector has recorded increase in demand and become the most active sector in the property market over the years. This, indirectly giving the financial institutions a problem concerning liquidity. Their liquid asset will be tied up to long-term housing loans and they will become illiquid. Banks and finance companies play their part by charging higher interest rate which meant higher cost to the borrowers in owning a house.

In line with the government objective to raise the number of house ownership, Cagamas Berhad, a secondary mortgage market