

Prospective RE financing via existing scheme

There exist more than 50 financing schemes established by the government and private entities to support various economic activities in the country. It is apparent that there are various financial schemes established by the Government to meet specific economic objectives, but they are not applicable to supplement RE projects as either the amount is insufficient to cover the requirement or they do not meet the specific objectives. Some policy adjustments are needed if they are to supplement RE financing. Below is the list of relevant funds (maximum amount of financing of more than RM5 million).

□ **New Entrepreneur Fund 2**

Eligibility:	Capital not exceeding RM10 million; 100% owned by Bumiputra
Purpose:	To finance fixed assets and/or working capital
Interest rates :	5% per annum
Tenor:	8 years
Maximum amount of financing:	RM5 million
Percentage Financing: assets	Up to 85% of the cost of eligible assets
Managers:	All commercial banks, finance companies, Islamic Banks, Bank Pembangunan & Infrastruktur (M) Berhad, Bank Industri & Teknologi (M) Berhad and Malaysian Industrial Development Finance Berhad (MIDF)

Remarks:

The borrower must be 100% Bumiputra. Some flexibility could be considered for joint ownership between Bumiputra and non-Bumiputra companies. Other term appears quite favourable to RE developers and can supplement borrowings from financial institutions.

□ **Rehabilitation Fund for Small and Medium Industries**

Eligibility:	Shareholders funds do not exceed RM10 million; 51% shares held by Malaysian; Manufacturing, agro-based and services sectors
Purpose:	Financing fixed assets and/or working capital
Interest rates:	4.5% per annum
Tenor:	7 years
Maximum amount of financing:	RM5 million
Percentage Financing:	Up to 75% of the cost of fixed assets
Managers:	All commercial banks, finance companies, Islamic Banks, Bank Pembangunan & Infrastruktur (M) Berhad, Bank Industri & Teknologi (M) Berhad, MIDF, Bank Pertanian and Sabah Development Bank Berhad.

Remarks:

As a rehabilitation fund, this fund can utilized for developer to upgrade the facility and appropriate for small-scale RE projects.

□ **New Guarantee Scheme under Credit Guarantee Corporation (CGC)**

Eligibility:	Malaysian owned company or 51% controlled by Malaysian; Annual business turnover not exceeding RM25 million; Full-time employees not more than 150
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Purpose:	To finance small-scale enterprise
Interest rate: bank	The prerogative of the approving bank
Maximum amount of financing:	RM10 million
GGC's Guarantee coverage:	80% with no security 90% with security
Guarantee fee:	1% to 1.25% per annum
Managers:	All commercial banks and finance companies

Remarks:

This fund has good potential to supplement ordinary borrowings since it can be extended without security. However, its applicability depends on the prerogative of the approving banks.

□ **Capital Financing Scheme**

Eligibility:	Private investment in the following sectors:- Information and Communication Technology; Health Care; Biotechnologies; Internet; and Electronic and semiconductor.
Purpose:	Equity financing
Maximum amount:	RM40 million
Terms and Conditions:	The investment company shall have a representative in the board; The investment company shall cease its investment within five years from the date of its initial investment.

Manager: Malaysia Venture Capital Management Berhad (MAVCAP)

Remarks:-

This fund is sufficient to alleviate shortfall in initial capital. The only constraint is investment pullout within 5 years. If this issue can be addressed, more players can be expected to invest in RE projects.

□ **Japan Bank for International Cooperation Fund for SMI**

Eligibility: Paid-up capital not exceeding RM3 million
51% shares held by Malaysians
Full-time employees not exceeding 150
Annual turnover not exceeding RM25 million

Purpose: Financing of fixed assets, working capital

Interest rate: 6.25% per annum

Tenor: 15 years inclusive of grace period of 3 years

Maximum amount of financing: RM5 million

Percentage Financing: For fixed assets financing, up to 85% of the cost
For combination of working capital requirement and fixed assets expenditure, the working capital financing shall not exceed 20% of the total loan
For working capital purpose only, the financing amount shall not exceed RM0.5 million

Managers: Development Finance Institutions

Remarks:-

This fund can be tapped as terms and conditions are quite favourable. However, the condition imposed on maximum paid-up capital needs adjustment if fund is to accommodate RE developers.

□ **Private Debt Securities (PDS)**

Private Debt Securities (PDS) or bond is a form of capital market instrument to raise loan for economic activities. This form of money market instrument in recent years has enjoyed a very strong growth reflecting the customers' preference for longer-term financing and debt restructuring. Additionally, this form of financing option provides cheaper financing in view of current low interest and ample liquidity.

We append below some characteristics of PDS.

□ Parties involved in the transaction

Issuer	:	The borrower
Lead Manager	:	The financial institution that manages the financing
Underwriting Agent	:	Agent comprising of financial institutions that underwrites to non-subscribed portion of the bond issue
Primary subscriber	:	The initial holder of the bond
Secondary subscriber	:	The secondary investors
Paying Agent	:	Bank Negara Malaysia
Rating Agency	:	The agency responsible to provide appropriate rating for the issue

- Issue Size: Unlimited amount but the aggregate nominal value of the outstanding bond shall not exceed the issue size. The issue prize may comprise of two notes that is primary and secondary note. The primary note comprises of the principle amount of loan while the secondary notes comprise of series of interest attached to the primary note.
- Issue Prize: The bond shall be issued at a discount
- Tenure of the facility: Up to ten years from the date of first issue with the secondary issue comprising of interest coupon redeemable every six monthly or any other regular interval as structured
- Profit rate: The profit rate for the bond shall be determined at the point of issuance
- Collateral: Mortgage of assets, assignment of payment, corporate guarantee executed by the directors

Remarks:

This form of financing option has been popular among the borrowers and investors as it provides a cheaper and a longer-term of financing. As this financing option involves with additional cost such as arranger's fee, underwriting fees and rating agency's fee, the loan under this bond arrangement should be big enough that is more than RM100 million to enjoy the economy of scale. Additionally, the issuance of PDS requires rating issued by the approved financing rating agency. Hence, the big corporation with good financial track record would benefit from this option.