

**Achievement of Market-Friendly Initiatives and Results Program  
(AMIR 2.0 Program)**

**Funded By U.S. Agency for International Development**

**Jordan Mortgage Refinance Corporation  
Company Overview**

Final Report

**Deliverable for Capital Markets Component, Task No. 607  
Contract No. 278-C-00-02-00201-00**

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## **Jordan Mortgage Refinance Co. Ltd. (JMRC) Overview Report**

### **Mission**

JMRC strives to give Jordanians the opportunity to purchase suitable housing units financed through medium to long-term housing loans granted by banks and financial institutions operating in Jordan. In addition, the JMRC aims to assist banks and financial services corporations in expanding their business in the housing finance sector and expand Jordan's capital market.

### **Background**

JMRC was incorporated in 1996 under a government initiative with financial assistance and support from the International Bank for Reconstruction and Development (World Bank) and the Central Bank of Jordan (CBJ) in order to enhance the private sector's role in housing and increase local and foreign investment in Jordan's housing market.

### **Source of Funds/ Ownership**

The World Bank extended a JD 20 million loan to the Jordanian government to establish JMRC. In addition, a total of JD 5 million paid-up capital was provided by various financial organizations operating in Jordan. The Social Security Corporation (SSC), the Housing and Urban Development Corporation, and the CBJ own 38% of JMRC. Thirteen private financial services companies own the remaining 62%. (See Appendix 1 for complete list of ownership entities.)

### **Securities Law of 1997**

JMRC is recognized as a financial services corporation and licensed under the Securities Law of 1997. This recognition enhanced the credibility of JMRC, which helped JMRC successfully commence operations in 1998.

### **Management and Staff**

JMRC employs approximately 20 people. 50% of employees have technical knowledge of the banking industry while the other 50% are administrative. Dr. Khalifeh expressed interest in obtaining technical training assistance for senior level employees. (See Appendix 2 for a list of JMRC senior staff, JMRC Board of Directors and JMRC organizational chart.)

## Objectives

- To develop and improve the housing finance market in Jordan by enabling licensed banks and financial institutions to increase their participation in granting housing loans and encourage competition among banks in order to decrease borrowing costs.
- To broaden Jordan's capital market by issuing corporate bonds which will create a new investment instrument.
- To open a window to provide medium and long-term loans to banks and institutions that are willing to extend housing loans.

## Challenges to Commencing Operations

Prior to JMRC becoming fully operational, existing government regulations required amendment. Although the JMRC was initially established in 1996, the 1.1% Transfer of Liens Fee and the Ottoman Law were not amended until 2000. These changes paved the way for JMRC expansion.

## Main Services

1. **Refinancing of Mortgage Loans:** JMRC provides medium and long-term refinancing of mortgage loans to banks and financial institutions.

*Borrowing from JMRC provides banks and financial services companies with the following benefits*

- Reducing the cost of funds. Funds borrowed from the JMRC are not subject to the monetary reserves requirements of the CBJ and therefore are a cheaper source of funds.
- Improving bank's capital adequacy ratio. The weighted average risk factor related to the housing loans refinanced by JMRC is 50%.
- Improving banks' matching and managing of assets and liabilities.
- Avoiding interest rate risk on housing loans extended for different maturities by using JMRC's refinancing options with fixed interest rates for different maturities.
- Benefiting from re-investing the installments received from the beneficiaries of housing loans through the life of the company's loans.

- Providing liquidity through refinancing of housing loans. (Eligible loans include those granted to finance the purchase of a housing unit, completion or improvement of existing housing units, and the purchase of property to build housing developments.)

### Total Loans Provided Since Inception

<i>Year</i>	<i>Loan Amount (JD million)</i>
1998	14.3
1999	4.3
2000	4.5
2001	30.9
Through 8/2002	12
Total	66

### JMRC Clients as of June 2002

<i>Client</i>	<i>Percent of JMRC business</i>
Housing Bank	22%
Arab Egyptian Bank	21%
Jordan National Bank	19%
Jordan Kuwait Bank	18%
Arab Banking Corporation	13%
Cairo Amman Bank	5%
Jordan Gulf Bank	2%
Philadelphia Bank	<1%

## 2. Issuing Bonds and Short-term Financial Paper

### *Benefits of Investing in JMRC Bonds*

- Easy subscription in bonds tradable in the local capital market.
- Consistent semi-annual or quarterly income.
- Bonds considered liquid assets on balance sheet for the purpose of calculating the legal liquidity ratio according to the CBJ.
- Bonds characterized by low risk factor equivalent to 20%, which can help improve bank's capital adequacy ratios.
- Interest and profits are exempt from all taxes.

**JMRC Bonds Issued since Inception**

<i>Date Issued</i>	<i>Nominal Value</i>	<i>Interest rate %</i>	<i>Bond Term</i>
7/16/98	10,000,000	8.250	3 years
4/29/99	4,800,000	8.467	3 years
3/30/00	4,450,000	7.758	5 years
5/31/01	5,000,000	6.800	5 years
8/27/01	10,000,000	5.750	3 years
9/2/01	5,500,000	5.450	3 years
9/19/01	3,000,000	5.750	5 years
12/10/01	10,000,000	5.200	3 years
5/20/02	5,000,000	5.200	3 years
7/1/02	1,500,000	4.900	3 years
Total	59,250,000		

**JMRC Short-term Financial Paper issued since Inception**

<i>Date Issued</i>	<i>Nominal Value</i>	<i>Interest Rate %</i>	<i>Term</i>
10/5/00	3,000,000	6.000	6 months
4/9/01	5,000,000	5.000	6 months
6/27/01	5,000,000	4.700	6 months
10/18/01	4,000,000	4.138	6 months
11/29/01	4,800,000	4.189	6 months
12/24/01	1,200,000	4.189	6 months
4/24/02	10,000,000	4.100	6 months
Total	33,000,000		

**Competition**

JMRC does not currently have any competition in the refinance market in Jordan. However, some banks are still reluctant to use the services provided by the JMRC. Please refer to the section on **Challenges to JMRC** for more information.

**Challenges to JMRC**

## 1. Existing Market Conditions

- High Liquidity
- Few Investment Opportunities
- 3 Banks handle over 50% of mortgage loan business. These include Housing Bank for Trade and Finance, Egyptian Arab Bank, Jordan National Bank
- Few Fixed Rate Loans

## 2. Mindset of Banking Sector

- Reluctant to extend long term-loans
- Consider JMRC a competitor. Banks are reluctant to change. They are content with the short-term variable rate environment they operate it. They fear that the JMRC will help other financial services institutions to extend housing loans, increase competition in the industry, and thus bring down interest rates paid by consumers. The Jordan National Bank and the Egyptian Arab Bank are two of the more innovative banks in Jordan. These two may be more open to change and to utilizing the services of the JMRC. There are currently no non-bank institutions in the housing loan business operating in Jordan.
- Adverse to expanding income sources
- Choose to sell CDs versus taking advantage of JMRC services

## 3. Thin Capital Market in Jordan

- Main purchaser of JMRC bonds and financial paper is SSC and banks
- Banks and SSC have limits on how much they can buy from JMRC. The JMRC would like other institutions to purchase JMRC bonds and/or mortgage-backed securities such as the Jordan Investment Trust, pension funds and insurance companies.
- JMRC issues currently sold only through private placement and auctioning. JMRC issues a prospectus for each offering, and reserves the right not to issue the bond depending on the rate.
- Virtually no secondary market for bonds or paper

## Future Plans

### 1. Securitization of Bonds

JMRC hopes to issue bonds backed by a group of mortgages versus backed by the assets of JMRC. This would enable JMRC to issue more paper and bonds. However, this would require a change in the Securities Law.

### 2. Standardization of Housing Loans

JMRC hopes to help standardize Jordan's mortgage loan industry including but not limited to standardizing the application and underwriting process and credit check procedures.

### 3.Exploration of Opportunities Generated by Change in Rent Law in 2010

In 2010, all commercial and residential rents in Jordan will be subject to market conditions. JMRC needs technical assistance in order to be able to evaluate the additional risks involved in refinancing commercial real estate and determine whether or not to expand its product offerings to accommodate these commercial loans.

### 4.Development of a Credit Bureau

JMRC plans to help develop and promote a credit bureau in the Kingdom in order to help expedite the loan application procedure and reduce loan delinquencies. Arab Insurance has taken the first step in establishing a credit bureau. It is in the preliminary stages.

### 5.Enhanced Cooperation with Central Bank of Jordan and Commercial Bank

JMRC hopes to work more closely with the CBJ to bring together borrowers and help negotiate with commercial banks for fixed rate loans. In addition, JMRC believes it can significantly help banks with matching by working to create long-term fixed income instruments. The JMRC would like to see the CBJ implement regulations to standardize the housing loan industry, support a Trust Law in Jordan, encourage longer-term fixed rate loans and eventually help develop hedging tools so that all risks can be covered.

## APPENDIX 1

### Shareholders of JMRC and Distribution of Ownership

<i>Investors</i>	<i>Number of Shares, JD</i>	<i>Percentage</i>
Central Bank of Jordan	900,000	18
Social Security Corporation	500,000	10
The Housing and Urban Development Corporation	500,000	10
Arab Bank	500,000	10
Housing Bank for Trade and Finance	500,000	10
Jordan Loan Guarantee Company	300,000	6
Jordan National Bank	250,000	5
Cairo Amman Bank	250,000	5
Jordan Gulf Bank	250,000	5
Jordan Bank	200,000	4
Jordan Bank of Investment & Finance	150,000	3
Egyptian Arab Land Bank	150,000	3
Arab Investment Bank	150,000	3
Arab Banking Corporation	100,000	2
Middle-east Bank for Investment	100,000	2
Total	5,000.000	100

**APPENDIX 2****JMRC Senior Staff**

<i>Name</i>	<i>Title</i>
Dr. Zuhair Khalifeh	Managing Director
Mr. Saad Al-Bishtawi	Director of Bonds Issuance Department
Mr. Mohammed Rasoul Baiazidi	Head of Finance Division
Mr. Zuhair Al-Qudah	Senior Administrator
Mrs. Amal Madanat	Senior Internal Auditor
Mr. Bassam Abu-Sahab	Senior Financial Analyst/ Refinance Loan Department

**JMRC Board of Directors**

<i>Name</i>	<i>Title</i>	<i>Organization</i>
Dr. Umayeh Tukan	Governor Chairman	Central Bank of Jordan
Engineer Basheer El-Jaghbeer	Deputy Chairman	Housing and Urban Development Corporation
Dr. Zuhair Khalifeh	Member	Central Bank of Jordan
Ms. Nelli Batschoun	Member	Central Bank of Jordan
Mr. Marwan Al-Hmaoud	Member	Social Security Corporation
Mr. Mohammed Mousa	Member	Arab Bank
Mr. Ibrahim El-Daher	Member	Housing Bank for Trade and Finance
Mr. Zahi Fakhouri	Member	Jordan National Bank
Mr. Taoufik Mukahal	Member	Jordan Kuwait Bank
Mrs. Simona Bashouti	Member	Cairo Amman Bank
Mrs. Iman El-Damen	Member	Jordan Gulf Bank

## ORGANIZATIONAL CHART

