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# NEEDS ASSESSMENT OF MORTGAGE FINANCE COMPANIES

EGYPT FINANCIAL SERVICES PROJECT  
TECHNICAL REPORT #31

**DECEMBER 27, 2005**

This publication was produced for review by the United States Agency for International Development. It was prepared by Chemonics International Inc.

## DATA PAGE

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Activity Title and Number: Egypt Financial Services (EFS) Project  
Contract No. 263-C-00-05-00003-00

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Task: Task 1 Establish a Supporting Framework for the Real Estate Finance Industry

KRA: KRA 1.3: Real Estate Professions Stimulated, Industry Brought to International Standards; Other Services Developed

Activity: Needs assessment of mortgage finance companies.

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Date: December 27, 2005

### List of Key Words Contained in Report:

Mortgage finance companies  
El Taamir Mortgage Company (TMC)  
Egyptian Housing Finance Company (EHFC)  
Risk management  
Underwriting

The author's views expressed in this publication do not necessarily reflect the views of the United States Agency for International Development or the United States Government.

## TABLE OF CONTENTS

Acronyms	i
Acknowledgments	ii
Executive Summary	iii
Scope of Assignment	vi
Methodology Employed	vi
Introduction	1
El Taamir Mortgage Company	6
Recommendations	8
Strategic Opportunity	12
Strategic Considerations	13
Marketing Strategy	13
Delivery of Services: Credit Policy and Procedures	18
Mortgage Lending Process	18
Management Information System	23
Product Refinement: Loan Pre-approval	23
Training and risk Management: Credit Committee	24
Risk Management: Asset Liability Committee (ALCO)	26
EGYPT HOUSING FINANCE COMPANY (EHFC)	27
Considerations: Portfolio Originated by Developer	27
General Recommendations	30
Training Needs	31
Technical Assistance	32
Recommendations for EFS Technical Support	32
Technical Support for Housing Finance	32
Training	32
Technical Assistance	33

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## APPENDICES

Appendix 1: List of Interviews	35
Appendix 2: Overview of Bank Mortgage Lending Terms & Conditions	37
Appendix 3: Overview of the housing presale terms and conditions	38
Appendix 4: El Taamir Mortgage Company Organizational Chart	39
Appendix 5: Outline of Internal Credit Policy	40
Appendix 6: Suggested Training Agenda	42
Appendix 7: Asset/Liability Management Committee(ALCO) Proposed Terms of Reference	45
Appendix 8: Sample Job Description	51
Appendix 9: Technical Assistance Matrix	54
Appendix 10: NIVIS MIS Description	56
Appendix 11: Sample Loan Application	60

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## ACRONYMS

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BOD	Board of Directors
CAD	Consumer Affairs Department
CBE	Central Bank of Egypt
CLF	Central Liquidity Facility
CEO	Chief Executive Officer
COO	Chief Operating Officer
DTI	Debt Payment-to-Income Ratio
EBI	Egyptian Banking Institute
EFS	Egypt Financial Services Project
EHFC	Egyptian Housing Finance Company
FY	Fiscal Year
GC	General Counsel
GOE	Government of Egypt
GSF	Guarantee and Subsidy Fund
IAD	Industry Affairs Department
IAO	Internal Audit Office
IMD	Internal Management Department
IT	Information Technology
LTV	Loan to Value Ratio
MFA	Mortgage Finance Authority
MFCs	Mortgage Finance Companies
MOH	Ministry of Housing, Utilities and Urban Communities
MOI	Ministry of Investment
MOJ	Ministry of Justice
OC	Office of the Chairman
OGC	Office of the General Counsel
RAD	Research and Analysis Department
SRO	Self Regulatory Organization
USAID	United States Agency for International Development

## **ACKNOWLEDGMENTS**

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The assessment could not have been accomplished without the cooperation of El Taamir Mortgage Company (TMC) and Egyptian Housing Finance Company's (EHFC) senior managements, who graciously offered their time, insights and assistance and extended to me their "open door" policy.

I wish to express my appreciation to the many El Taamir and EHFC employees who shared their perceptions of the environment and their roles at their respective companies.

I would also like to gratefully acknowledge and thank the Egypt Financial Services project Task 1 staff, which helped in every phase of this report. I also extend my gratitude to Kevin O'Brien, the EFS Task 1 team leader for his excellent ideas, assistance, and insights.

I would like to acknowledge and thank Mr. Sherif Wahdan, from the Mortgage Finance Authority, for his insights from the regulator's perspective.

## EXECUTIVE SUMMARY

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As the first mortgage finance company in Egypt, El Taamir Mortgage Company has enjoyed a number of benefits in the marketplace. However, performance results of their first 14 months, and especially a growing gap between the actual and projected volume of lending, have prompted the company to re-address its policies and procedures, re-evaluate its competitive position, perceptions of value added, and embark on a program of human capital development to build internal capacity and core competencies. The company continues to expand its staff to accommodate anticipated volume and, at the same time, search for an appropriate management information system. The company started the transition from a manual system to the initial automation of some elements of the workflow via an internally developed access-based system. This necessitated a re-definition of the organizational chart with more clear reporting lines. The focus on efficiency and productivity is imperative as El Taamir is expanding its business regionally having approved its first loan in Alexandria.

This report serves to outline general needs articulated by the El Taamir senior management, as well as those identified by the consultant, and strategic directions for potential technical assistance on a broad spectrum of issues that include human capital development, types of products and processes, strategic partnerships, and mitigation of associated risks.

With external technical assistance, El Taamir Mortgage Company may become a model for other mortgage finance companies. Once trained, the local staff will be instrumental in training and helping to implement the approach and methods throughout the region.

El Taamir Mortgage Company was the primary focus of this assignment, being more proactive in seeking the external expertise in all aspects of company operations. The Egyptian Housing Finance Company, the second, and so far the only other mortgage finance company on the market, benefits from continuous technical assistance provided by a shareholder and leading housing finance company in India, the Housing Development Finance Corporation (HDFC).

Although the two companies are facing similar environmental and regulatory obstacles, and share the common challenge of pioneering the nascent Egyptian housing finance market, each is struggling through a range of unique internal problems related to the start-up phase. One common challenge is a lack of a long-term strategy and vision, development of which may eventually require a change in the corporate culture. This change will have to stem from the owners and the Boards of Directors on down throughout the companies. Evidence of this change will have to appear in sales and marketing, targeted customers, and internal hiring and promotion. All staff needs to share a keen understanding of the vision and who a targeted customer is. At the same time, they must be sensitive to their existing clients and continue to excel in customer service.

The biggest challenge will come when the mortgage companies move into the lower end of the market. During the on-going pilot phase, products are being tested with high-end customers; this however, does not guarantee a quality portfolio. Given the lack of expertise in housing finance there is also insufficient time and skills to:

- a) prioritize the major training needs;
- b) develop and coordinate courses;
- c) assess the capacity and ability to internalize the knowledge;
- d) ensure the highest levels of training quality standards;
- e) develop a training evaluation to monitor the progress and improvement based on the feedback; and

- f) develop a plan on Loan Officers accreditation and promotion.

In this regard, both mortgage companies are seeking assistance from outside organizations that have worked extensively in developing markets in the field of housing finance, and have successfully designed and delivered training courses focusing on ways to hedge the risks posed by an undeveloped supporting infrastructure.

This report makes five major recommendations for proceeding to the next phase. The recommendations aim to assist build the internal capacity of both mortgage companies for human resource development, streamlining the processes, ensuring portfolio quality, and eventually strengthening their public image and playing a more proactive role in educating the customers. Although the scope of work called for a more focused assessment of El Taamir Mortgage Company, the following are general recommendations that could be beneficial to both mortgage finance companies (MFCs):

1. Training - classroom and on-the-job (one week of classroom training and three to four months of on-the-job training):
  - a) Training of Loan Officers (using classroom and on-the-job training methods that are in-depth, hands-on, and tailored to meet the MFC's focus and volume targets). This includes introduction of a concept and definition of the Loan Officer's functions; training in sales and marketing, origination, underwriting, basics of financial analysis and credit analysis of salaried and self-employed customers, basics of property valuation, customer service, monitoring and delivering value added services to customers who are generally not sophisticated in financial matters.
  - b) Training of trainers so that as MFCs grow, new employees can be adequately trained from within the organization and a system of accreditation is developed, which will help to form a cadre of housing finance professionals.
  - c) Training the Board of Directors in corporate governance as a part of the overall efforts to develop a long-term strategy.
  - d) Study tours to other mortgage companies in developing markets.
  
2. Introduce, develop, and work with Risk Management to better identify and manage the risk inherent in this market in lieu of avoiding or denying risk given the nascent industry and non-existing supporting infrastructure. (Due to the varying level of technical expertise in each company, the actual training time may range from two to four months).
  
3. Develop written materials (three to four weeks are needed to develop these materials for El Taamir Mortgage Company)



- a) Draft operations policy and procedure manuals. These will contain clear policies, logical procedures and flexible guidelines for all staff involved in the housing finance operations.
  - b) Re-design the mortgage customer application, loan presentations (write ups), and other internal documentation etc.
  - c) Develop the internal reporting requirements and guidelines for potential investor reporting.
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- 4. Reassess the systems for product design, development, packaging and delivery based on the experience of the pilot phase (actual time required for designing a formal system will depend on the existing technical capacity of MFCs in terms of capturing and analyzing information).
  - 5. Promote industry-wide standards in housing finance through technical assistance that contributes to strengthening the mortgage companies' public image and increases the public's awareness about the opportunities and limitations of the current state of housing finance.

In summary, both mortgage companies have the organizational foundation and the determination of the executive management to advance themselves to the next stage.

To accomplish these objectives the mortgage companies will need technical assistance to develop the skills, systems and train people. Prompt implementation of the next phase is important in order to maintain the momentum the companies have gained.

## **SCOPE OF ASSIGNMENT**

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This report is a part of the ongoing series of activities supported by USAID through the Egypt Financial Services (EFS) project. Task 1 of EFS is working to establish the supporting framework for the real estate finance industry.

ShoreBank Advisory Services consultant, Natalya Klimova conducted this study. The objectives of the assignment were to:

- a) Review the strategy and current policy of MFCs in light of the existing legal and regulatory environment.
- b) Determine what gaps exist in the MFCs internal systems and processes.
- c) Identify potential opportunities for EFS support and technical assistance.

Specific attention was paid to assessing the origination and underwriting aspects of operations in the existing lending framework and the steps required for its refinement.

## **METHODOLOGY EMPLOYED**

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The study method used for this project combined:

1. Industry research,
2. Employee interviews, and
3. Interviews with industry representatives.

Research included a review of previous reports and opinions of EFS Task 1 consultants, a review of relevant literature and studies on mortgage and housing finance in transitional economies, and selected MFC internal documentation. Neither company provided a strategic plan for review as a plan has not yet been prepared. El Taamir however, did provide an early version of a business plan (dated July 2004) from which the consultant extracted some information.

Over the course of 14 working days in Cairo, the consultant conducted in-person interviews with senior managers of both companies, met with department managers and employees, and a representative of the regulating agency, the Mortgage Finance Authority (MFA). A complete list of interviews can be found in Appendix 1.

Weekly discussions were held with the EFS Task 1 team leader and real estate finance specialist to get input and feedback on the direction the recommendations were taking.

## INTRODUCTION

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The virtues of a vibrant and competitive mortgage lending sector – including large multiplier impacts for the economy, increased labor mobility, and the opportunity to “unlock” real estate capital to support economic growth are widely recognized. Increased mortgage lending and the use of real estate to collateralize the use of other loans, such as those to SMEs, are both important. The real estate market, especially in the Greater Cairo area, is currently active, as suppressed demand is fueled by cash payments. However, prices are very high, in part because the lack of finance for new construction puts pressure on the existing supply. This makes entry into the real estate market or upgrading of current housing unaffordable for most of the population.

The housing finance sector is the primary service area for TMC and EHFC and is characterized by limited capital access for the general population, consistently high interest rates, a skeptical but interested market base, and relatively unfocused competitors. The market promises high returns for the entrant, but the banking sector and other financial institutions have been slow to innovate or test the feasibility of more attractive lending products. TMC and EHFC identified an opportunity to enter the sector and are now operating in an environment distinguished by the following characteristics:

### SUPPLY

- New apartments are being built for potential purchase by residents at upper-middle income level and foreigners for occupancy and investment.
- Satellite cities (e.g. the Sixth of October and Fifth Settlement) are being constructed and the urban fringe is seeing the development of second (vacation) homes and western- style planned communities.
- Incentives offered by the government to attract investment into the new cities (ten-year tax exemption, cheaper land prices and facilitated procedures).<sup>1</sup>
- Existing apartments are available for between EGP 115,000 and 150,000 on average. New units are available at an average cost of EGP 180,000 and 230,000 (150sq.m at LE1, 200 – 1,500/sq.m). No extensive research of housing prices has been done as a part of this assignment.
- The breath of new stock options is extensive. The existing stock is improving including the leasehold market, which is no longer subject to rent control with the introduction of Law No. 4 of 1996 that limits the renting period.
- Value and price are in flux and on the rise for all types. The typical factors of location, amenities, size and age are influencing price as well as readiness.
- The development is organic and building is seen as an important economic driver.
- There is some concern for the future about the infrastructure and urban planning to support the development.
- The rate of non-compliance with building codes is excessively high, limiting the pool of eligible properties and lowering the quality of construction. The Ministry of Housing is regulating that through 17 existing building codes and underwriting 4 more<sup>2</sup>.

## DEMAND

- There is a current, and it appears growing, demand for the purchase of homes in and outside of Cairo. This is due to many factors ranging from limited prior opportunities, internal migration, increased stability in the economy, and increased salaries or business income available for housing.
- The attractiveness of residential units to prospective buyers is determined mainly by their incomes and respective buying capacity. The demand for apartments on the primary and secondary markets is driven, first of all, by price. Other factors – qualitative characteristics, location, transportation access, floor, window view, etc. – are given a secondary importance.
- There is a general increase in the demand for higher quality units, and for the so-called “elite” housing that is emerging in Cairo suburbs with appropriate service infrastructure. A growing economic literacy of prospective buyers, who, in addition to the purchase price, are now looking at the cost of future maintenance and repairs. This results in a flow of clients from the secondary market (existing housing stock) to the primary market.
- There appears to be a sizable population of middle and upper-middle income households (so called class A, A-, B+, and B starting at LE 3,000 per month). The population is seeking upgraded housing and new housing both in and out of the Greater Cairo limits. Frequent evidence of demand, both present and growing, such as the volume of applications for the current housing product (with modest and untargeted external marketing), opinions of the mortgage companies’ staff, increased business by ancillary services like insurers.
- There is also a demand for home improvement or a combination acquisition and home improvement loan. The design and structure of the product, regulated by the RE law, makes it less attractive. Home improvement is partially being addressed by other lenders through retail consumer lending (cash loans) at competitive rates and tenure (Appendix 2).
- Quantifying the demand is outside of the scope of this assignment, as well as attempts to test the depth of the demand at the upper end of the market. This would be an important element of the work of the Strategic Planning and Marketing Unit for both mortgage companies. Understanding the long-term end especially for the upper end is critical to getting a better understanding of the long-term sustainability of the trends.
- There is a growing demand for individual residential construction loans, which is currently untapped by the commercial banking sector. Both mortgage companies have recently introduced this product allowing for stage financing.
- With virtually non-existent SME lending or home equity loans, the smaller scale commercial real estate loans are in demand as well.
- Development of the residential tourism propelled both companies to introduce loans to purchase the second home.

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<sup>1</sup> According to the Ministry of Housing, by the end of 2017, when the third generation of new satellite communities is inaugurated, there will be forty-four new urban communities on the borders of the Greater Cairo with the capacity of 12 million residents. The first generation includes seven residential and industrial cities: Tenth of Ramadan, Sixth of October, Fifteenth of May, Salheya, New Damietta, Borg Al Arab, and Oboor. Seventeen million communities are functioning under this generation over 500,000 feddan. *The Insider, Coldwell Banker Egypt, Issue 39, April 2005, page 8.*

<sup>2</sup> The Egyptian Gazette, July 17, 2005, page 2, “Building Codes Essential for Society Development”, speech of Mr. Mohamed Ibrahim Soleiman, Minister of Housing at the conference on Egyptian Codes.

- There is a perceived preference of the developers over the mortgage companies by the buyers for less complexity and smaller costs.
- The major demand is for the properties under EGP 115,000, while the supply is at the much higher end results in a considerable mismatch. Insolvent demand has been fueled primarily by the government positioning the RE law as a means to access affordable housing for the low-income population. The government seems to be a hostage to its own policy, but which is unlikely to be realized for evident lack of budget resources either now or in the near term. However, the issue of the incorrectly formulated policy for stimulating the construction complex (the government is almost always a less efficient owner and manager of resources as compared to private businesses) is outside the scope of this research.

***It appears that given the demand, both companies have selected a market niche which can and is yielding a steady stream of qualified borrowers in Cairo. While lending is also being generated in other location (e.g. Alexandria and Port Said), the profitability and sustainability may benefit from further analysis***

## CAPITAL

- Unlike both demand and supply, institutional debt capital targeted to end buyer financing appears to be very limited.
- The low motivation of the banking sector to provide mortgage services is caused by such factors as the deficit of long-term resources, legislative gap, high credit risks, underwriting difficulties, low rate of return from mortgage operations, etc.
- A limited number of commercial banks who are making home purchase financing (not necessarily mortgage based financing) is available to:
  - their preferred or high end customers at terms and rates competing with the current rate and terms of the mortgage companies. This is the major reason explaining that:
    - no business is currently being generated for the mortgage companies through the corporate employers;
    - none of the mortgage companies (being partially owned by the local banks) benefits from the potential cross-selling opportunities or referral from the banks;
  - buyers of the bank's own development projects (e.g. HDB, Arab Land Bank);
  - bank employees at the subsidized rates (e.g. EDB).
- While no exhaustive search has been done on the competition, both mortgage companies appear as the only two lenders offering longer term financing in the market (which is not necessarily perceived as the biggest advantage at this stage given the cost of financing). The summary of bank housing finance products (including cash loans used for home improvement) is provided in Appendix 2.
- There is also a limited amount of capital in construction financing. The lack of construction financing means that builders are moving as fast as they possible can, which may effect quality of construction, seeking substantial presale volume and amounts (means up-market buyers are limited to households with at least 10% down in cash, and depending on the project from 50% to 80% upon delivery) and working with investors who do have cash and then can resell upon completion at higher prices. This situation is provoking the price fluctuation in new apartments. The terms and conditions of presale contracts can be found in Appendix 3.
- Mortgage financing is on the radar of commercial banks, which are potentially interested in diversifying their portfolios through debt financing of mortgage companies.
- Most part of new housing is constructed at the expense of individual savings that are attracted either by concluding investment contracts with households or by advance payment of the full cost of housing while it is still under construction.

- ERA Egypt (real estate company) has applied for a license to start a mortgage company, emerging as a potential serious competitor given its international investors' capital base.

## REGULATORY AND LEGAL ENVIRONMENT

- In discussions with the EFS lawyers, lenders, and users of the system, a few critical legal challenges exist including a clear and simple registry process that is transparent and includes both the land and the buildings on the land, foreclosure (and an option of a non-judicial foreclosure) and tripartite contract limitations stemming from the RE Law and Executive Regulations.
- Another legal gap includes a structure for the lack of a secondary market transactions. There are a number of ongoing efforts by the donor community and government to address these and other regulatory barriers.
- It is hard to determine the viability of any regulatory or legislative change in the immediate future. While substantial attention is being paid to the topic, the expectation is that reform is some years away.
- Due to the legal limitations, there is no flexibility to hedge interest rate risk or assure reasonable security of the mortgage contracts.
- Regulatory arbitrage exists between the commercial banks and mortgage finance companies.
- Property history and condition is difficult to obtain with only about 7% of properties formally registered.
- A new law is being drafted to gradually decrease the government stamp fees for property insurance from 20% to 5%, and completely eliminate the stamp fees on life insurance, which currently stands at 3%.<sup>3</sup> This however, will not have a substantial effect on the cost of insurance, as the total insurance cost does not exceed 0.4% of the total loan amount.
- The Mortgage Finance Authority (MFA) is in an early stage of development as is the Real Estate Committee, which aims at bringing key players in the industry to the policy formulation level.

## CONSIDERATIONS FOR THE SECONDARY MARKET

- The combination of imposed fixed-interest rate and fixed tenure represents a significant obstacle to a generation of loans in the primary market, and loans, which do not entirely account for the risk, will not be attractive to the secondary market and will require either a substantial credit enhancement instrument or a substantial discount. These loans will be better understood by local investors (pension funds, insurance companies) familiar with the local environment.
- Due to the complicated and time consuming registration process, there is technically no mortgage at the time of loan origination, and until the registration is complete the loans are only secured with advance checks and a promissory note. As such, any loan outstanding for at least 24 months can be considered as adequately secured. Another unique risk factor is related to a law limiting the mortgage contracts to ten years (it does however, allow for renewal). This calls for an extremely efficient MIS to track down contract expiration dates well in advance.
- A uniform valuation system is under development, however, the lack of reliable transaction records yield unreliable and often over-estimated values. Appraisers resort to the 'replacement cost' method of valuing residential property when no

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<sup>3</sup> Business Monthly, June 2005, the Journal of American Chamber of Commerce in Egypt, "Insurance Companies Join Privatization Train", page 34.

comparable sales records are available (mostly for the low-demand areas), which results in overestimated value. Lenders may face a major credit risk resulting from over-valued properties. It is unlikely that the potential secondary market participants would have an interest in purchasing loans made at 90% loan to value (LTV) and will require additional insurance or guarantee.

- The lack of a uniform interpretation of the regulated underwriting criteria, such as a debt service of 40% of the borrower's gross income, seriously increases the credit risk due to the lack of expertise in assessing the actual repayment capacity and other risk elements of the borrower.

## EL TAAMIR MORTGAGE COMPANY

### PORTFOLIO SUMMARY

El Taamir Mortgage Company, the first mortgage company registered in Egypt, is owned by 11 entities including 9 public and 2 private companies with a total committed capital of LE 500 million and a current staff of 63 (Appendix 4 provides the Organizational Chart, current and planned staffing levels).

As of July 15, 2005, TMC had an outstanding portfolio of 30 loans disbursed within the last eight months:

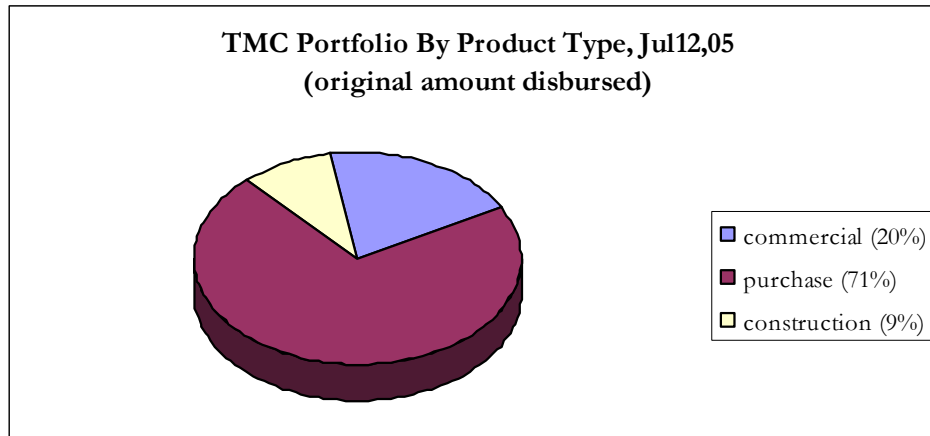
July 15, 2005	Currency, EGP
Lending Since	Nov 2004
Total Disbursed	7, 241,245
Amount Outstanding	7,233,625
Portfolio at Risk	1.10%
Total # of Loans	30
Loan Sizes	37,000 – 1,184,000
Average Loan Size	241,375
Term Range, years	6 – 20
Average Term	12.5
Range of Interest Rate	14% - 16%, fixed
Average Interest Rate	14.27%
Range of LTV	24% - 86%
Average LTV	35%
Range of Borrower's Monthly Income	2,000 – 50,000
Other Fees:	
Loan Application Fee	150
Upfront (Processing) Fee	2%

EGP 6.7million – or 94% of the portfolio – was committed within the last 4.5 months (March - July 15, 2005). The following chart demonstrates the growth of monthly activity with variations, which are mostly attributed to the substantial loan-processing time of 30 - 60 days and a range on newly introduced products.

In terms of product diversity, the portfolio is composed of:



- Home Purchase (25 loans, EGP 5.1mln)
- Construction (3 loans of 0.6mln)
- Commercial Real Estate (2 loans, 0.2mln)



The company, however, undertakes to reach and maintain the following portfolio diversification in terms of the products mix (as articulated by TMC senior management during the interviews) and properties financed (as set forth by the TMC general policy):

Portfolio Diversification*	Indicators	%
<b>By Product Mix</b>	Home Purchase (owner occupied)	60%
	Home Construction & Improvement	30%
	Commercial (for individuals and legal entities)	10%
	<b>TOTAL:</b>	<b>100%</b>
<b>By Property Size</b>	Under 100 square meters	50%
	100sq.m – 150sq.m	35%
	150sq.m – 200sq.m	15%
	<b>TOTAL:</b>	<b>100%</b>

\*Data extracted from the business plan dated: July 6, 2004

The current portfolio composition is driven by demand, rather than guidelines set by the general policy. No financial projections or sensitivity analysis were carried out by TMC to determine the acceptable mix, pricing, break-even level, profitability, or other product characteristics affecting the company's bottom line. Therefore, any actual concentration or exposure risk is not monitored and analyzed (e.g. having set the maximum level of exposure in terms of the financed properties' size, the company does not have a system in place to track it).

Another potential risk is the source of borrowers' income. Precise proportion of salaried versus self-employed customers is not consistently monitored, however, based on feedback from the operations manager, it is about 80% and 20% respectively with the number of self-

employed applicants is increasing. The implications on the portfolio are twofold: self-employed individuals may not have as much repayment capacity as salaried individual. At present TMC applies the same assessment methodology for all loans, including commercial real estate loans. The second related factor is a concentration of borrowers' income source in terms of the employers and industries.

At present, 100% of TMC's outstanding portfolio is concentrated in the Greater Cairo area. Two recently approved loans in Alexandria are contributing to the geographic diversification, which however, comes with increased operational costs. Without a business plan in place, it is hard to determine whether this expansion is part of the overall development strategy or a spontaneous response of an unfocused corporate culture to developer-driven demand. All loan applications from Alexandria will be collected through a local outlet and processed at the Cairo Head Office.

Selective portfolio characteristics can be found in Appendix 5 (presented data is maintained by the Operations Department in Excel). Any additional loan characteristics including the social and developmental impact of lending (e.g. borrower's age, source of borrower's income, amount of income – individual or joint-household income, borrower's employment history, borrower's prior credit history, etc.) are not monitored and can be found only in hard copy documentation in the loan file.

#### RECOMMENDATIONS: PORTFOLIO REPORTS

It is highly recommended that TMC start generating the following portfolio reports on a regular basis for routine use by management (and eventually for investor reporting). Until a more sophisticated MIS is in place, excel spreadsheets should be sufficient given the low volume of lending and underutilized staff.

- **Monthly Disbursements** (loan reference number, client name, date disbursed, amount disbursed) especially important with stage financing for construction;
- **Monthly Disbursement Statistics** (volume and number disbursed; percentage volume change against the previous month – TOTAL and per each product type);
- **Cumulative Portfolio Statistics** (volume outstanding, number outstanding, growth percentage (volume) – TOTAL and per each product type, on a monthly basis);
- **Monthly Loan Commitments** (volume, number, percentage change in volume – TOTAL and per each product type);
- **Application Withdrawn Approved** (volume, number, percentage change in volume – TOTAL and per each product type);
- **Applications Received** (volume, number, percentage change in volume – TOTAL and per each product type);
- **Aging Portfolio at Risk** (loan reference number, client name, number of months initial/left, originally disbursed loan amount, o/s principal, overdue principal, aging days (1-30, 31-60, 61-90, 90-180, >180));
- **List of Paid Off Loans** (loan reference number, client name, original amount, original maturity date, actual pay off date);

- **Scheduled Payments Due** (e.g. by Loan Officer: ref number, client name, installment amount due this month) - mostly for the loan officers to contact the borrower in advance and remind about the payment date and amount);

Daily report on arrears; pipeline on application status;

Monthly reports on the portfolio classification, quality and concentration of the following indicators: risk rating, collateral geographic location, single obligor, borrower's employing industry, LTV, use of financed property, collateral (property financed or alternative property or other type), maturity, time gap between the disbursement and collateral registration dates, borrower's age, loan restructuring, etc.;

Quarterly report on the mortgage contract expiry date (as each mortgage contract has to be renewed after ten years);

#### **OPTIONAL REPORTS:**

- Transactions summary (loan reference number, client name, transaction name: payment, disbursement, cash short/over, penalty charges, penalty write-offs, etc.);

- Active Portfolio by Loan Officer (loan reference number, client name, original loan amount, o/s balance);

- Loan Prepayments

- Penalty Fee/Penalty Interest Report

- Reasons for Loan Rejections (both at the screening level to monitor marketing effectiveness and at the Credit Committee level to monitor the quality of underwriting)

#### **Training Needs: Portfolio Reporting**

- Computer Literacy - MS Applications
- Advance Skills in MS Excel
- Basics of Risk Management
- Basics of Portfolio Management
- Basic Understanding of Mortgage Lending Process, key underwriting ratios and loan amortization
- Basics understanding of LTV/collateral value

### PRODUCT DESIGN AND DELIVERY

TMC is currently offering four loan products with the following characteristics:

	Home Purchase	Home Improvement	Construction & Development	Commercial
Maximum Loan Amount	2,000,000 (loans over this amount are approved by the Board of Directors)			
Loan Term, yrs	20 / 30 for low income	?	10 developing/ 20 construction	10
Interest Rate, fixed	14%	?	14%	16%
Collateral	Property to be financed, alternative collateral is considered on a cases by cases basis			
Min Down Payment / Contribution	15%	?	20%	20%
LTV (% of the lowest of either appraised or actual)	85%	?	80%	80%
Prepayment Penalty	None			
Late Payment Fee	?	?	?	?
Eligible Property	Any residential property where title can be proven and that is lienable			
Borrower's Age at Loan Maturity	65			
Expense-to-Income Ratio:				
-income under 1,800	25%			
-income over 1,800	40%			

Source of the above information are TMCs' marketing flyers and staff interviews. Marketing flyers neither disclose total loan costs, nor indicate the interest rate. The following is a list of other related charges, loan closing, ownership transfer and collateral registration costs. In the hypothetical case of a home purchase loan (for a property over 80sq.m) of EGP 240,000 for 10 years @ 14%p.a. the total costs (assuming the delegation of property registration to TMC) amounts to EGP 19,896 or 8.29% of the loan amount. The case will be considered in detail in the Underwriting Section of this report:

<b>Other Loan Charges, including:</b>	
Loan Application fee	150, fixed
Upfront Fee	2%
Guarantee & Subsidy Fund (factored into installment)	0.5%
Advance Annual Life Insurance Premium, of loan Amount	0.045%
Advance Annual Fire Insurance Premium, of Loan Amount	0.005%
Advance Monthly Loan Installment	
<b>Property Appraisal</b>	
unit under 80sq.m, EGP	400, fixed
unit over 80sq.m, EGP	750, fixed
detached house, villa including land, EGP	1,000 fixed
<b>Property Registration</b>	
Registration Application, fixed, EGP	10, fixed
Determination Inspection, EGP	210, fixed
Lawyers Syndicate Fee (of property value)	0.50%
Registration Fee (of property value)	3%
Lawyer Taxation, EGP	5, fixed
TMC Registration Administration Fee (% of total registry expenses)	20%

Basic Home Purchase should be simple and easy to understand for both borrowers and credit staff. As dictated by the RE Law, the interest rate is a single fixed rate non-adjusted for cost of capital. The terms are attractive and technically provide for better affordability in today's market for the middle to high-income population.

TMC has recently introduced a value-added service through which it will pre-qualify developers. This should eventually reduce the paperwork for a potential applicant buying a newly constructed unit through a pre-qualified developer.

Responding to the growing demand for construction finance, TMC has introduced the Construction Loan as a new product in June 2005 and disbursed three construction loans in July 2005 (nine percent of the total outstanding portfolio).

Home Improvement Loan is not a popular product due to the limitations imposed by the RE Law, which requires an obligatory tripartite agreement. This substantially increases the renovation cost for the borrower because the contractor, the third party to the Agreement, must be a registered certified business entity and a tax payer. TMC administers taxes on behalf of the contractor until the project's completion. Both, renovation and construction loans are disbursed in tranches corresponding to actual work completed. Disbursement of each loan tranche is made upon authorization by the Engineering Department following a monitoring visit. Until the project completion date, the borrower is granted a grace period of interest only at eight percent. No time limit has been set for an interest-only period.

With the introduction of commercial property loans, TMC has started to build a Small and Medium Enterprises (SME) portfolio. The high demand for this product is in response to the general lack of SME financing available in the market. TMC is offering this product under terms and conditions more suitable to consumer lending rather than as a commercial business loan. Portfolio quality may eventually be compromised given that the business applicant is being underwritten in the same fashion as a salaried applicant for a home

purchase loan, without a consideration of the business financial performance, cash flow or the income generating capacity of the financed property.

As none of the above products have been assessed for potential financial implications, TMC will benefit from training in institutional capacity, skills for product development, and more specifically in determining the financial viability of the products. This has not been an issue so far as a 100% of TMC' operational costs are being covered through the income on EGP 189.3 million capital placed in T-Bills and short-term deposits. However, as the portfolio volume grows, the company needs to be sure that it is able to at least break-even on its long-term products.

#### **Training Needs & Technical Assistance: Product Development**

Developing internal capacity & skills related to Product Development and refinement of existing product as it relates to

- Situation Analysis; Internal Preparation; Creation of Work Plan
- Market Research and Developing Prototype
- Analysis of Institutional Capacity and Legal & Regulatory Environment
- Costing & Financial Analysis (Financial Consideration & Social Impact)
- Roll-Out & Evaluation
- Developing Integrated Marketing Strategy & Implementation Plan

#### **RECOMMENDATIONS: STRATEGIC APPROACH**

Until now, TMC has not articulated a strategic approach for defining its market niche. However, with commencing its tenth month of active operation in August 2005, TMC should start to address the challenges of mortgage finance through a four-step process:

1. The strategy should rest on a detailed understanding of what drives the different housing-finance needs of Cairo's diverse consumers.
2. TMC should tailor its product/service alternatives to satisfy the needs of the more attractive sub-segments. These segments include high-income households, double-income households in the middle class category, knowledgeable investors and existing prime borrowers of the Housing Development Bank – a TMC shareholder.
3. During the pilot phase, TMC should focus not on volume targets, but on relationship and information-based acquisition techniques which target the highest-value prospects.
4. TMC should tailor its products and credit processes to an average loan size rather than defining too many diverse products and procedures.

#### **STRATEGIC OPPORTUNITY**

TMC current mortgage lending relies on crude and undefined segments. Housing finance loans of all types are mixed into a large pot, which may include

- First-time home purchase (including upgrade or a trade up)
- Investment property to be sold when completed
- Investment for rental income
- Investment in a second home (for children or vacation house)
- Home improvement
- Completion of construction of a single family house
- Businesses seeking to expand its infrastructure and grow

This approach fails to capture the unique situation and outlook of individuals. For example, a young married couple's appetite for long-term financing is different from a retiree looking to invest in a rental property or parents looking to buy a unit for their son as a wedding gift. Secondly, this approach fails to capture the unique service needs of the different segments in terms of financial education, product requirements or unique cross-selling opportunities with the Housing Development Bank. The current approach of TMC is a response to market needs without a focused approach or a cost-benefit analysis. A positive practice should be built through the emphasis on managing the relationship rather than simply selling a product. Overall, current product offerings remain costly and inefficient throughout the Egyptian financial sector. However, mortgage lending remains attractive, especially to foreign banks, because of the low cost of deposits.

It is in this environment that TMC's opportunity exists. If demand exists, despite the fragmented and high cost of financing a home, a mortgage company with more targeted and efficient service will have a significant and lasting market advantage.

## **STRATEGIC CONSIDERATIONS**

Processes and products alike should be tailored to the size and use of the facility, rather than applying a broad stroke to all housing finance customers.

For larger loans with longer maturities and thus higher risk, TMC's strategy should focus on targeted neighborhoods and specific customer profiles. Such an approach would focus on building relationships with developers, real estate professionals, attorneys, and government offices with the goal of gaining expertise on local market values, legal processes and supply/demand dynamics.

In summary, the mortgage finance strategy for TMC is two-fold. First, it should streamline and simplify the products and processes, focusing on those they understand best and can manage the risks. Second, it should focus on making more profitable higher-risk loans in targeted neighborhoods with a predefined and specific customer profile.

TMC should focus its pilot phase to the Greater Cairo area. This includes a diverse client base of salaried individuals, entrepreneurs, older and younger families, young professionals and students supported by the parents. TMC should narrow its markets into the following four segments:

- Highly-paid executives employed by international companies or profitable local companies.
- Entrepreneurs with significant household income.
- Professionals and young families with double incomes who are currently renting at the market rate.
- Egyptians working abroad.

The basis for segment selection centers on affordability, collateral availability, down payment, and other criteria.

## **MARKETING STRATEGY**

TMC's main objective is to pursue a low-risk strategy by developing a high-quality primary portfolio of stable-income customers (ideally denominated in hard currency or indexed to inflation), employment histories and highly transferable skills. One of the best sources for these customers are longer term employees of companies and organizations with strong financial positions and a history of working in Cairo (i.e. multinationals, Egyptian affiliates of multinationals, embassies, international NGOs, etc.). Other groups of professionals and

entrepreneurs will also be considered as part of this targeted segment. In general, the targeted market consists of middle to higher income families consisting of two wage earners with a combined income of over EGP 5,000 per month.

Strategies for achieving this objective are as follows:

- Target key employees and second-tier managers of multinational companies and organizations operating in Cairo.
- Target licensed practitioners (i.e. medical professionals, lawyers).
- Target successful entrepreneurs and small business owners with a proven and positive credit history.
- Create relationships with real estate developers to deliver turnkey construction and renovation finance products.
- Create relationships with professional real estate brokers as a channel of information dissemination.

The marketing strategy for targeting employees of established international companies and organizations including local branch offices of large multi-national corporations, local branches of non-governmental organizations and foreign aid organizations should be considered for several reasons:

- Earnings History: These organizations typically provide adequate documentation that allows for the accurate calculation of the borrower's financial capability and optimal loan size;
- Stability of Income: Multinational corporations, specifically active in the energy, financial, construction, communications sectors are now perceived as having a long-term presence and commitment. As such, it is highly likely that these organizations will continue to have a presence in Egypt (and more specifically in Cairo) and to employ local staff at above average market wages;
- Skills Transfer: Many employees of these entities enhance their skills dramatically while employed. As such, should one entity discontinue operations or downsize, the likelihood of its staff finding comparable employment is thought to be quite high. Hence, there is a measure of employment security.
- Mitigation of Real Estate Market Risk: This segment will tend to purchase/renovate properties in areas that are less impacted by adverse changes in property values.

### Promotion and Distribution

Given the demand-driven market, different “free-of-charge” promotions should be used. Efforts should focus on two issues:

- Increase awareness of mortgage products in different organizations able to multiply the message towards groups of potential borrowers.
- Carefully select ‘agreed distributors’ by evaluating their business creditworthiness and their capacity to generate quality pools of potential customers.

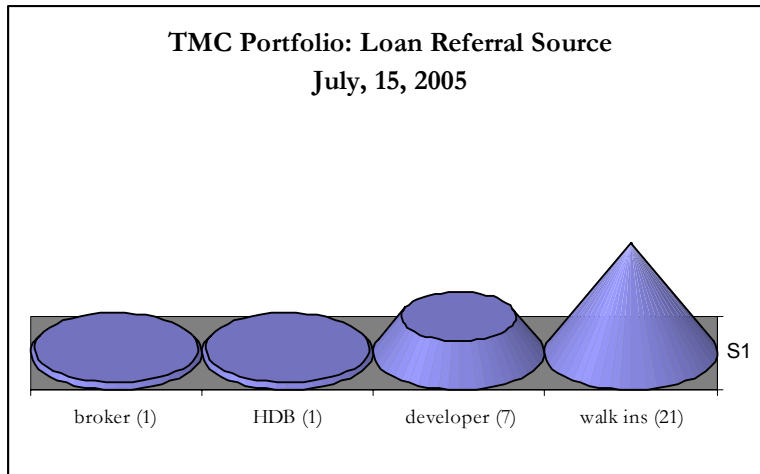


A public awareness campaign, initiated through press releases and newspapers coverage (once sufficient funding is secured by TMC) should be launched. Word-of-mouth will also have an important role in promoting the product among targeted segments of well-educated, well-employed and/or successful businessmen.

Categories of possible 'multiplying promoters' include:

- real estate brokers
- developers/builders
- insurance companies
- corporations and selected public institutions/affinity groups
- Internet coverage also represents a channel to reach targeted segments.

As seen in the following chart, 21 out of the 30 active customers (or 70% of the portfolio volume) came either through word-of-mouth or were referred by TMC's modest marketing efforts. TMC continues to explore the benefits of building a long-term relationship with developers. The pipeline, as of July 12, 2005, consisted of 45 potential deals, 30 of which were referred by pre-qualified developers.



Promotion channels represent an opportunity for clustered distribution – in the sense that such above-mentioned organizations may potentially serve as distribution or collection points for applications.

The program shall also focus on the customer service officer and loan officers. It should be engrained in the loan officers, through training and performance incentives, that they can not wait for customers, but should seek out potential customers and build a large and high quality portfolio. In Shorebank Advisory Services' experience, it is equally important to provide hands-on training to loan officers in order to demonstrate that such efforts really do produce results.

As described above, product planning begins with understanding the diverse needs and circumstances of potential borrowers. A next step is to develop a loan product that takes these factors into consideration and serves the client's needs. Below is an outline of a first-time home buyer loan. This basic home purchase product has the longest history with TMC and therefore is much better understood by its staff and appreciated by its customer base.

### First Time Home Buyer Program - proposed outline for a product:

1. **Product Description:** The *First-Time Home Buyer Loan* is to be used for the purchase of existing flats by first-time homeowners.
    - a. Maximum Loan Amount (recommended): EGP 300,000 (expected average loan amount EGP 200,000).
    - b. Down payment: Twenty percent, either to be deposited with the Housing Development Bank at the time of the credit approval or paid directly to the property seller prior to the loan disbursement.
    - c. Loan-to-Value Ratio (recommended): Maximum eighty percent of value of the property pledged (ratio applies to the lowest of a purchase or appraised value).
    - d. Rate: Fourteen percent, floating for the duration of the loan.
    - e. Repayment
      - i. Maximum of 20 years
      - ii. Principle and interest paid in equal installments
      - iii. Amount of loan installment to be fixed and adjustments for the floating rate to be made through extending or shortening the loan duration
      - iv. Life and fire insurance premiums pro-rated on a monthly basis factored into the loan installment
      - v. No grace period
      - vi. Pre-payment penalty (TMC can consider a lock up period for the first three years and then allow a penalty free prepayment; prepayment during the lock-up period could be allowed only in full at 2% penalty rate).
      - vii. Late payment penalty (to be determined)
    - f. Debt-to-Income Ratios (recommended):
      - i. The Expense-to-Net Income Ratio            35%
      - ii. The Total Debt-to-Net Income Ratio        40%
    - g. Guarantee: Promissory Note, un-dated checks
    - h. Collateral:
      - i. Property to be purchased. Or alternative property valued at least 133% of the loan or greater until the subject property is properly registered.
      - ii. Borrower's spouse co-signs agreeing to be liable together with the borrower for the mortgage (liability commitment)
    - i. Origination Fees:
 

-	Application Fee	EGP 150
-	Origination fee*	2%
-	Guarantee & Subsidy Fund 0.5% (prorated & factored into the loan installment)	
- \*Suggested scale for the origination fee*
- 2% between EGP 40,000 – EGP100,000
  - 1% between EGP 100,001 – EGP 200,000
  - 0.5% between EGP 200,001 – EGP 300,000
- j. Insurance:
 

-	Life insurance on primary income earner at 0.045%
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- Property insurance on collateral equal to loan value at 0.005%

- 2. Eligibility:** First Time Home Buyer Loans are available to individuals with:
  - Steady employment history for at least the previous two years and at least six months with the current employer.
  - A monthly household income of at least EGP 3,000.
  - Self-employed entrepreneurs are eligible if they have at least three years of uninterrupted operation and a combined household income of over EGP 5,000.
- 3. Competition:** Currently, banks are targeting customers with both significant income from stable and often foreign employers. Banks are only serving its own employees, employees of corporate clients, or financing for its own development projects. For these wealthier individuals this product's interest rate may be too high, although the 20-year loan term and 80% LTV may be major benefits. Currently, very attractive terms and interest rates are available on a limited basis for a very exclusive group, as well as bank and corporate employees.
- 4. Customer Attitudes:** There is a moderate interest in financing home purchases in the existing market. Twenty-five to forty-five year olds, in particular, have witnessed considerable political, social, and economic instability which has led to an inability of owning a home. Nevertheless, high rates of unemployment, as well as low incomes continue to limit the number of households eligible for this product. A major factor for success will involve building strong relationships with real estate professionals. In addition to this foundation, the mortgage company will need to educate both buyers and sellers regarding the benefits, risk, and costs of bank financing.
- 5. Relationship Benefits:** This product's main purpose is to attract high-quality borrowers. The benefits for the borrower include: in-depth financial education, assistance in the home buying and registration process, discounts on appraisal services, insurance and lower up-front costs. Important benefits for the mortgage company include more stable earning assets and enlarged product offerings. In addition to interest and fee income on these loans, TMC should capitalize on cross-selling opportunities for deposits, insurance, and other services/products.
- 6. Product Benefits:** Pre-qualification (to be introduced); customer education
- 7. Process Overview (recommended):** The process begins with a buyer attending an informational seminar on the program. Interested parties may get pre-qualified by the bank for a non-binding financing amount. The buyer may attend an additional seminar to learn more about the home buying process, perhaps presented by lawyers and real estate brokers. With this knowledge the buyer identifies a purchase property and negotiates a contract. The Buyer then presents the negotiated contract to the bank for further review and approval.
- 8. Risk Areas:**
  - Verification of Entrepreneurial Income

- Verification of the funds for loan closing & collateral registration costs
- A pool of reliable Real Estate Broker
- Title Insurance\*

\*As title insurance is not currently available and because only about seven percent of the existing housing stock has not been legitimized, the following measures to mitigate title related legal risks are to be followed:

- Thorough analysis of the property ownership history
- Lower LTV ratio (up to 50%) when doubts still exists
- Limited in time credit insurance for the full loan amount (when available)
- Additional collateral (optional)
- Guarantee from the employer (optional)

#### Corporate Guarantee (derived product):

TMC should consider this, if employers bear some of the credit risk by issuing a corporate guarantee for their employees. TMC could suggest employer assistance with the following characteristics:

- The corporate guarantee has to cover minimum 20% of the property value. The company can be released of the guarantee when the outstanding balance is less than 50% of the property value
- Corporate guarantee may leverage a small job history of the applicant (if total employment is less than three years) for at least 50% of the property value
- Interest may be negotiated down based on the characteristics of the guarantee
- An analysis of the company's business will be necessary

### **DELIVERY OF SERVICES CREDIT POLICY & PROCEDURES**

At present, TMC's lending process is governed by two internal documents: "General Policy of TMC for Mortgage Lending" (a two-page document) and "Credit Controls & Procedures of Financing the Purchase, Construction, Renovation or Improvement of Real Estates" (a four-page document). It is the consultant's understanding that both documents are the first attempt to formulate a credit policy and should be viewed as evolving working documents. Both documents provide reference to the regulatory environment, but fail to address most steps in the lending process, as well as the product description. A sample outline of an internal credit policy and operation manual can be found in Appendix 5.

### **Technical Assistance: Credit Policy and sample documentation development**

- |  |
|--|
| <ul style="list-style-type: none"> <li>☑ Review &amp; Assessment of the current documentation</li> <li>☑ Development of a Credit Policy &amp; Procedures Manual</li> <li>☑ Development of a Loan Work Out Manual</li> <li>☑ Define/Re-design the Application Form and other documentation pertaining to the loan process</li> <li>☑ Re-define internal reporting lines and streamline the loan analysis avoiding duplication of functions and efforts</li> </ul> |
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### **MORTGAGE LENDING PROCESS**

Currently, the mortgage process starts with the customer service officer (CSO), who carries out a preliminary interview that includes pre-screening the applicant for basic eligibility

criteria, briefs the client on the products, and an informal pre-qualification screening through calculation of the maximum loan amount based on the applicant's verbal information.

According to the CS Unit Head, from April 2004, the CS Officers have pre-screened 2,300 walk in clients and received about 10,000 calls. 160 applications have been submitted and 30 loans approved, suggesting an 81% rejection rate on the loan application level.

The CSO continues to be the applicant's contact person throughout the origination phases until the required documentation file is complete. Documentation is then passed to the sanctioner, who reviews the file for completeness, inputs the initial data into the internal access-based database and scans the documents for the digital file. The file is then passed to the Legal and Verification/Investigation Departments. The legal officer reviews the registration status of the property being considered and produces a legal opinion on the land and unit ownership and identifies existing encumbrances, if any, and either recommends or rejects the property as collateral. A verification officer conducts the external verification by visiting the applicant's place of work, place of residence, visiting the seller, the property to be financed, and runs a credit check through the Central Bank of Egypt's Public Registry database (only for loans over EGP 30,000)<sup>4</sup> and produces a summary report indicating any discrepancies between the information provided in the application and actual findings. The file, with reports from the Legal and Verification Department, goes back to the sanctioner for data input, who then send the file to the Engineering Department. The Engineering Department reviews the documentation related to the property, sends a request for appraisal, receives an appraisal report, reviews it and, if necessary, goes for another property inspection. An engineering officer inputs the appraisal report into the database and produces an appraisal memo.

The profession of appraiser does exist in Egypt and it is an MFA-certified activity with defined qualification standards and professional courses available at two universities. Currently there are 61 certified appraisers registered with the MFA. Each mortgage company works with a limited number of qualified appraisers approved by its Board of Directors. TMC's board of directors approved five appraisers, some of whom are managing a staff of other MFA-registered appraisers. According to the TCM engineering department's deputy manager, an appraisal report is produced within three to ten days. Cost of the appraisal depends on the property size, and varies between EGP 400 (under 80sq.m) to EGP1, 000 (villa).

The file is then returned to sanctioner for data input and review, who then forwards it to the Credit Department for underwriting analysis. The credit officer generates a loan summary, which is a combination of reports produced by the Legal, Verification and Engineering Departments. The credit officer reviews the reports for consistency and missing information, calculates the loan amount, term, and installment in accordance with the company's guidelines on LTV and expense-to-income ratio. The ratios calculated by the credit officer, however, are always subject to amendment by the Commercial Department Officer, which finalizes the loan amount including related charges and re-calculates the installment including prorated life and fire insurance, a payment to the Guarantee and Subsidy Fund and a processing fee. Therefore, the actual (post approval) ratios are always higher than those calculated by the credit officer for loan approval.

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<sup>4</sup> EFS' Task 4 is addressing this issue by assisting with deliverables of a private owned credit bureau.

**ANALYSING CAPACITY TO REPAY: DEBT-TO-INCOME RATIOS**

Executive Regulations (ER) to the Real Estate Finance Law (REFL), Article 3(F) Underwriting Standards, states that the finance installments may not exceed 40% of the investor's (borrower's) gross income.

An important component to underwriting is assessment of the borrower's repayment capacity expressed as a percentage of income. Two standard ratios internationally used by mortgage lenders are:

- The **expense-to-income ratio**, which compares the borrower's housing expense (principal, interest, taxes, and insurance) to the borrower's income; and
- The **total debt-to-income ratio**, which compares the borrower's total obligations – including housing expense and other debt – to the borrower's income.

The benchmark ratio for monthly housing expense-to-income is that a borrower's maximum monthly housing expenditure in the U.S. is 28% of the borrower's gross monthly income. The U.S. benchmark for the total debt-to-income ratio typically requires that the borrower's maximum total obligations not exceed 36% of the stable gross monthly income.

ShoreBank Advisory Services experience with mortgage programs in developing countries suggest the range of 25% to 40% respectively based on the household income level.

Proving that the ER does not specifically addresses whether 'gross income' refers to income on a monthly basis or that the 'finance installment' is considered on an annualized basis, or whether 'finance installment' refers to all debt obligations of the borrower or only the specific mortgage loan, the ratio tends to be freely interpreted and loosely applied.

Verifying and calculating the availability of loan-closing funds is not a part of the current underwriting process and is considered to be "the borrower's problem". The following hypothetical border-line case (following the current underwriting logics of TMC) illustrates a substantial risk posed by underestimated or ignored costs. Although, technically the loan falls into the eligibility criteria, the absence of loan-closing funds can be an impediment and will entirely skew ratios if the borrower resorts to a short-term, high-interest personal cash loan to finance the loan-closing fees, which will also jeopardize the TMC loan. Furthermore, even with a slight five-percent gap between the appraised property value and the actual selling price of the property, the borrower will need to cover the difference, since the mortgage company finances the lower of the two values. These gaps in underwriting analysis substantially increase the overall credit risk for TMC.

Example calculation of an actual loan case:

<b>Loan amount, EGP</b>	<b>240,000.00</b>
<b>Term, month:</b>	<b>120</b>
<b>Interest Rate per annum:</b>	<b>14%</b>
Interest Rate per month:	1.17%
<b>Monthly Payment, EGP</b>	<b>3,726.39</b>
Monthly Net (Household) Income, EGP	9,300.00
<b>Expense-to-Income Ratio</b>	<b>40.07%</b>
Life Insurance, prorated, 0.045%	9.00
Fire Insurance, prorated, 0.005%	1.00

Guarantee & Subsidy Fund, 0.5%, prorated	100.00
Monthly Installments on Other Borrower's Debts	500.00
Total Installment	3,836.39
<b>Total Debt-to-Income Ratio</b>	<b>41.25%</b>
Actual Down Payment	60,000.00
Required Down Payment	60,000.00
<b>Additional Funds Required (difference)</b>	<b>10,000.00</b>
Appraised Property Value	300,000.00
<b>LTV</b>	<b>80.00%</b>
Actual Property Price	300,000.00

<b>Other Charges, including:</b>		
Loan Application fee, EGP	fixed	150.00
Upfront Fee	2%	4,800.00
Annual Life Insurance Premium	0.045%	108.00
Annual Fire Insurance Premium	0.005%	12.00
1 Advance Installment		3,726.39
<b>Total:</b>		<b>8,796.39</b>
<b>Property Appraisal</b>		
unit under 80sq.m	fixed	400.00
unit over 80sq.m	fixed	750.00
detached house, villa including land	fixed	1,000.00
<b>Property Registration</b>		
Registration Application, fixed, EGP	fixed	10
Determination Inspection	fixed	210
Lawyers Syndicate Fee (of property value)	0.50%	1,200.00
Registration Fee (of property value)	3%	7,200.00
Lawyer Taxation	fixed	5
TMC Registration Administration Fee (of total registry expenses)	20%	1,725.00
Total Registration Costs w/TMC administration:		10,350.00
Total Registration Costs w/o TMC administration:		8,625.00
<b>Total Loan Costing Expenses w/TMC administering property registration (for a unit over 80sq.m):</b>		<b>19,896.39</b>
as % of a loan amount		8.29%

At the same time, the underwriting process is carried out by the credit officers, the customer service officer collects the application fee, appraisal fee, issues a life insurance application for the borrower, and prepares the Power of Attorney for the property.

Upon loan approval, the file is sent back to the Commercial Department and the credit officer issues instructions to the Finance Department (for issuing the check), the Legal Department (to prepare the loan contracts and review the Power of Attorney for the property registration) and to the Commercial Department (prepare the amortization schedule, to re-calculate the installment, which will now include insurance, payment to the Guarantee and Subsidy Fund, and the loan- processing fee). Having set the contract signing date, the Commercial Department gives instructions to the Finance Department to open a loan account for the borrower with the Housing Development Bank. The Commercial Department prepares the collateral documentation – including a promissory note (each note to the amount of 12 monthly installments) and signed undated checks for the loan amount plus interest. Settled promissory notes are returned to the borrower each ear and the checks are kept until the final settlement. The borrower also provides a statement consenting to incur the registration costs.

TMC used to withhold the disbursement of the 10% of the loan amount to the seller until the completion of property registration, but suspended this requirement at the July 2005 Board of Directors meeting, as it was perceived as a major impediment to scaling the home purchase product given the average registration period of 12 months. TMC is administering the collateral registration on behalf of ninety-five percent of its customers for an additional charge of twenty percent over the cost of registration.

The TMC portfolio is serviced by the HDB. The TMC Finance Department receives loan payment updates on a weekly basis and passes the information to the Commercial Department to follow-up on delinquencies. With the current set up, there is normally a minimum one-week delay on follow-up on the missed payments and arrears. No internal reports on the portfolio at risk or portfolio aging are generated on a regular basis for senior management. At the time of this assessment, there was one loan of EGP 80,000 sixty days past due and inconsistent efforts to contact the problem borrower.

TMC does not provide formal account statements to its borrowers. According to the TMC chief financial officer, the company does not see a need for this service at this stage however, it would be willing to explore it with the Housing Development Bank.

Other missing elements of underwriting include: borrower's net worth, household expenses, other stable household income, and savings habits of the applicant. Appendix 11 provides a sample Mortgage Loan Application Form, which captures some of the currently missing elements necessary for a more diligent analysis. There are however several potential barriers to assessing a borrower's creditworthiness:

- Informal or unreported income commonplace
- Little use of formal banking system
- Tax evasion (both through understating income and property values
- Lack of borrower education
- Unfamiliarity with the credit culture
- CBE credit database only records loans over EGP 30,000 (So, there might be

cases when the borrower has multiple outstanding loans under 30,000). The CBE is considering lowering the reporting limit to all loans over EGP 1,000. this will capture a significantly larger portion of consumer debt.



At the stage of deciding on the loan issue, while analyzing the solvency of a prospective borrower, there is always a dilemma of whether to take into account not only the applicant's official income but also his unofficial (shadow) income as well. From interviews with TMC Credit Department staff, it can be assumed that there are always borderline cases in terms of the informal income. The problem of evaluating the actual solvency of the borrower presents serious limitations to the possibilities of developing housing mortgage lending. The Mortgage Company may apply its own indirect techniques of solvency analysis, which in reality may not always correspond to the actual solvency of the borrower. This raises the credit risk which normally should be taken into account when establishing the interest rate on the loan.

Informal approach to the solvency analysis will present a serious limitation factor on the way of development of standardized primary and secondary markets for housing mortgage loans. Non-transparency of the borrower's income limits the interest of the investors, who have long-term resources available for possible investment into the mortgage lending sector

### **Training Needs: Mortgage Lending Process**

- Please see the Appendix 7 Training Agenda

### **MANAGEMENT INFORMATION SYSTEM**

With recruiting a Deputy General Manager of IT Department in April 2005, TMC has started transitioning from a manual excel based system into internally developed access database. This is still a work in progress as IT tackles each stage of a workflow separately and so far has put on the system some elements of standard narrative reporting for Origination (Sanctionier), Legal, Verification/Investigation, Engineering and Credit. Application and File information are digitally stored and can be viewed by the authorized staff. The database is basic, however it still allows TMC to assess the loan processing time and the bottlenecks. A parallel pipeline is being maintained in excel by the Commercial Department, which uses it mostly for statistical purposes and reporting to MFA. According to the Head of Commercial Department, the average loan processing time is 30 to 45 days with a major hold up with the Credit Department/Verification.

TMC is in the process of soliciting demonstrations and expression of interest from IT/MIS companies specializing in solutions for mortgage companies. All 'shelf' solutions so far have been the origination modules. TMC is currently considering open-ended NetOxygen Mortgage Solution software by Gallagher Financial Systems, Inc. (<http://www.netoxygen.com>), as it provides substantial flexibility for customization. No price quotes have been obtained yet.

Another potential MIS solution NIVIS is described in Appendix 10. This system was specifically developed and tailored for a mortgage company in Eastern Europe, which generates and services its own portfolio. NIVIS Company has been requested to fill in MIS assessment questionnaire developed by EFS IT Consultants specifically for identifying the mortgage software which can be easily tailored to the local environment.

### **OTHER STRATEGIC RECOMMENDATIONS**

#### **PRODUCT REFINEMENT: Loan Pre-approval**

According to the Customer Service and Operations Department staff, managing the sellers' expectations is one of the biggest challenges TMC's facing with its home purchase product. The company however can address this issue by adding a value-added applicant's pre-qualification and pre-approval to its existing home purchase product. According to the Operation Manager, the skeptical attitude of a seller has been a big impediment to the

product scalability providing that the seller would normally have a choice of selling the property for cash. The benefits of pre-approval are numerous for both the Mortgage Company and applicant, and are easily marketable:

- ✦ Pre-approval allows the customer to know in advance how much he/she can afford and the size of the loan he/she can qualify for. This saves time and trouble by narrowing the unit/house search to the price range the customer can afford;
- ✦ Managing the sellers' expectations and saving their time with would-be buyers who may or may not be able to come up with the necessary financing to close the deal. Being able to provide a pre-approval letter from a bank will go a long way toward getting the pre-approved offer accepted; particularly if there are competing offers;
- ✦ Loan pre-approval is based on documented and verified information regarding employment, income, liabilities, assets and the cash the applicant has available to close on a home purchase. If a seller knows that the buyer's financing is secure, the buyer's offer is stronger.

#### **TRAINING & RISK MANAGEMENT: Credit Committee**

As the loan volume is low at the moment it is a good time to spend more time on quality control through establishing and formalizing a Credit Committee function. When properly designed and exercised, a Credit Committee is an excellent tool, helping to achieve:

- A sound & transparent decision making process
- Control over the quality of the presented loan summary and related background research
- An instrument for maintaining a consistent and disciplined approach to equitable treatment of customers
- A training tool for developing a quality internal underwriting capacity
- A forum for collecting new ideas, expanding the market knowledge and determining the variables for a potential credit scoring system
- Ground for promoting loan officers to the senior loan officer position and increasing their level of responsibility and accountability by providing on-the-job coaching and mentoring to the junior staff
- One of the ways to grow and accredit the loan officers while delegating to them individual approval authority (based on productivity and performance quality), which will eventually decentralize the loan approval process as the accredited loan officers will be the first choice human capital for business geographic expansion
- Development and coordination among the loan officers and other staff responsible for the loan quality
- A medium to develop the presentation skills of the loan officers
- A training tool for junior loan officers through exposure to the decision making process and feedback from of various level and fields of expertise of (legal, financial, credit, engineering, etc.)

It is recommended that all TMC loans during the pilot phase are approved only through formal credit committees. The loan committees will consist of at least three members who unanimously must be in favor of any loan approval. In the result of a split vote the next higher committee will make the decision. To integrate the new concept into the *existing structure* of decision making process and individual approval limits, 5 levels of credit committees are advised.

The individual approval authority limits are based on the internal document describing the current individual approval authority levels.

As a rule, the person who prepares the file for credit committee does not have a voting right in the credit committee; for all levels the credit file should be reviewed by the Head of Credit Department or a senior loan officer (once that position has been filled in) before being taken to the committee.

**Level 1: For Loans under EGP 50,000**

Credit Committee comprises the following members:

- Head of the Credit Department
- Deputy of Head of the Credit Department
- 2 credit officers (appointed)

Head of Credit or his Deputy will have veto rights. If any two members reject the approval, the proposal is declined and does not go to the next level of approval.

It is also recommended that the credit committee invite as a non-voting member the Head of Engineering Department (or his Deputy) and the Head of Legal Department (or his Deputy) to educate the Loan Officers and provide answers on recurring questions related to property value, property underwriting and the legal aspects of the deal.

**Level 2: For loans between LEI 50,001 and LEI 200,000**

Credit Committee comprises the following members:

- Head of Credit Analysis (the position is yet to be filled in)
- Deputy of the Head of Credit Analysis
- Appointed credit expert (Senior Credit Officer) or another appointed executive officer
- Head of Credit Department

It is recommended that the credit committee invite 2 appointed Credit Officers with non-voting rights for the training purposes. Decision may be taken with any two affirmative votes.

**Level 3: For loans between LE 200,001 – LE 750,000**

Credit Committee must comprise the following members:

- Credit General Manager
- Deputy Credit General Manager
- CEO or another executive officer
- Appointed Senior Credit Officer or another executive officer

It is recommended that the credit committee invite 2 appointed Credit Officers with non-voting rights for the training purposes.

**Level 4: For loans between LE 750,001 – LE 1,500,000**

The Credit Committee will consist of the following members:

- Vice Chairman
- Credit General Manager or Deputy Credit General Manager
- CEO or another executive officer (COO or CFO)
- Appointed Senior Credit Officer or another executive officer

It is recommended that the credit committee invite 2 appointed Credit Officers with non-voting rights for the exposure and training in loan presentation.

**Level 5: For loans between LE 1,500,001 and LE 2,000,000**

The Credit Committee will consist of the following members:

- Chairman
- Vice Chairman (optional)
- Credit General Manager
- CEO or another executive officer (COO or CFO)
- Appointed Senior Credit Officer

Loans over LE 2mln should be approved by the Board of Directors.

Once approved, decisions should be in force for 45 days (with the possibility to extend the offer up to 90 days). If, for any reason the loan is still not disbursed after a 90-day period, a new credit committee must take place with updated client information (minimum updated income information).

#### **RISK MANAGEMENT: Asset Liability Committee (ALCO)**

Lending is a risk management business. Being a financial intermediary in a mortgage industry calls for a well defined process of evaluating the actions to control the risk and reach the financial goals and it is a critical part of the Mortgage Company financial management process. At present this function is somewhat neglected by TMC, so it is imperative that as a part of an overall strategic development, the company takes a serious approach to evaluate the risks and returns through proactive asset liability management and creation of ALCO. Suggested ALCO Terms of Reference can be found in Appendix 8.

#### ***Training Needs & Technical Assistance: ALCO***

- Development of Management Policies: credit policy, asset liability management policy
- Development of Management Tools: spread analysis, gap/rate sensitivity analysis, duration analysis, yield curve strategies, duration analysis, hedging, target ratios; planning & margin management
- Development of ALCO Reports

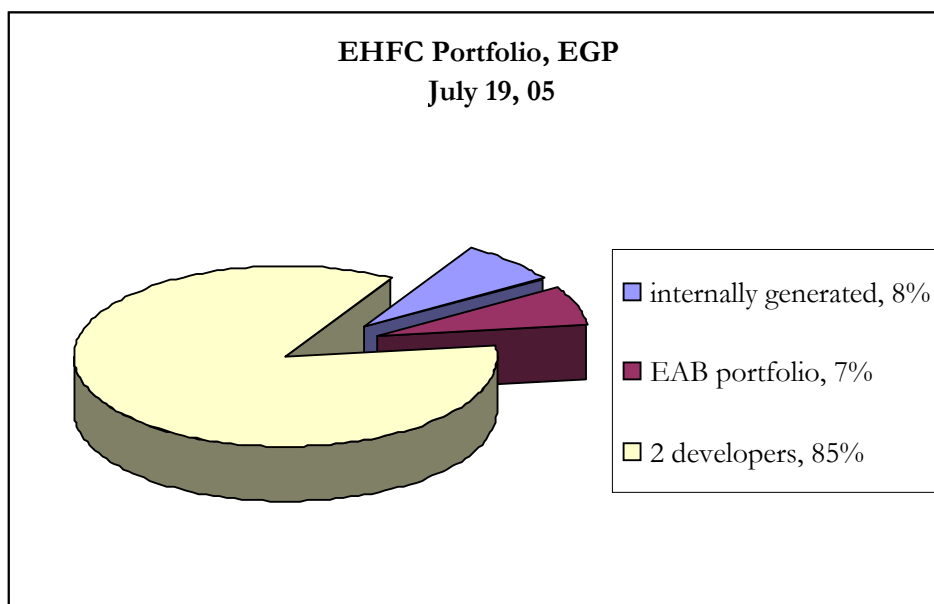
## EGYPT HOUSING FINANCE COMPANY (EHFC)

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### SUMMARY

Egyptian Housing Finance Company (EHFC) was incorporated in May 2004 and is jointly owned by International Finance Corporation (20%), Egyptian American Bank (40%); Deutsche Investitions und Entwicklungsgesellschaft (DEG): a member of the German KfW group and one of the largest European institutions for long-term project and company financing (20%), Housing Development Finance Corporation (HDFC - 10%): one of India's premier financial companies and the dominant force in the Indian mortgage market, and Bank of Alexandria (10%), an Egyptian state-owned bank. HDFC has an enviable 55% share of the Indian housing finance market and is providing a long-term technical assistance to EHFC.

EHFC became the second mortgage company launched in Egypt. EHFC is capitalized at EGP50 million (\$8.1Million at the USD: EGP rate 1:5.75) with a committed portfolio of EGP 62.2 million and a lean staff of 18 (including three service staff) operating from a single location. The portfolio is, in fact, a composition of four different portfolios as presented in the next table, with a zero percent delinquency, with the most seasoned loan of six months.



EHFC appears to employ solid underwriting techniques stemming from the long history and proven expertise of HDFC, which is providing long-term technical assistance and on-the-job training to EHFC's senior management and loan officers. However, along with its rapid portfolio growth, EHFC has exposed itself to the credit risk of untested asset quality acquired from developers, currently making up 85% of the total portfolio. While the company is exploring creative ways of getting to scale, it should also educate itself on the risks associated with construction finance and create a formal assessment tool when analyzing the builders/developers and evaluating the quality of portfolio they originate.

### CONSIDERATIONS: PORTFOLIO ORIGINATED BY A DEVELOPER

Normally, builders identify a partner lender prior to origination, and agree in advance to some underwriting, required documentation, and even forms. The lender, in turn, reviews all

the loans purchased for conformance with the terms of agreement. Basically, when loans are purchased, the purchaser **re-underwrites** all the loans using either specific software or personnel judgment to see if the loan matches up to the agreed-upon quality control features and determine if it is "investment worthy".

Loans are usually purchased on a loan-by-loan basis. Depending on the agreement, the lender may incorporate a buy-back provision.

There are options to provide construction financing for builders and the end loan to the borrower, essentially taking out a portion of the construction financing every time another loan closed. The requirement is that the local builder association places funds in a loan loss reserve account to reimburse the lender in the event of default. The percentage of reimbursement decreases with each additional year of maturity.

It is not uncommon for the purchasing lender to require builder/originators to establish a loss reserve that remains in place for a specified period.

When a Mortgage Finance Company is purchases loans from the developers, these loans are only as good as the standards used by the builders in underwriting and the information used to make judgments. It is a common practice among the developers to use, as their only criterion, which is the amount of cash the customer is willing to pay upfront.

Through the presale, the builders/developers are acting as the loan originators. Aside from the fact that the originator is a builder, much of the analysis in identifying and assessing risk, is the same as one would use in evaluating any portfolio regardless of the originator. One would have to know what constitutes prudent underwriting for the housing finance system in Egypt given its drawbacks with property registration, lack of foreclosure options, etc. Once it is established how to prudently underwrite a loan, the originator has to properly assess the borrowers' ability and willingness to pay. In addition, risks of loss should be assessed should foreclosure occur. Here is where various valuation issues and the suitability of the down payment are considered. But such issues are the same regardless of the originator. The MFC or the bank that is purchasing the loans needs to ensure that the originator performed a good assessment of the borrowers and property quality. And that should be done on a loan by loan basis.

#### Other important issues:

- **Payment history:** Who has been servicing the loans in the past and what evidence does the MFC have that payments were collected and that loans have histories of on-time payment. Loans that experience a 30-day delinquency within the previous 12 months might not be considered "saleable" unless discounted or have some credit enhancement security features. This standard is employed throughout the US for example. But the payment records are only as good as the entity handling the servicing. Servicing records could be fraudulent or just sloppy. Regardless, either spells trouble for the purchasing lender. According to the local developer (Alexandria Real Estate Investment Company), there is a high tolerance level of late payments and chronic delinquencies.
- **Continued servicing:** Will the MFC take on the servicing of the loans or pay a fee to the original servicer (could be the same developer)? If servicing is transferred, there is a due diligence aspect and a risk that files will yield incomplete or inaccurate records. In such cases, there may be an attempt to verify information directly from borrowers or a sample of borrowers.
- **Valuation:** Loan-to-value is an underwriting tool used in Egypt, regulated by the REFL. As such, the purchasing lender will want to verify that unit values have not declined/are not expected to decline within the elapsed period since loan origination.

- **Property tenancy:** The MFC needs to verify the type of tenure. Were properties sold as owner-occupied? What portion of the properties now contain tenants and, based on the market, are there additional risks associated with rental property? Any restrictions on rental going forward? If leased, what are the terms of the ground lease and do they exceed the term of the loan?
- **Prepayment:** Prepayment may or may not be a risk factor. Prepayments are often prohibited for some shorter period of time - say three years - because prepayments threaten the return/certainty of the income stream produced by the loans. Given the short terms of the loans, this may or may not be an important risk factor for the purchasing lender.
- **Compliance:** In the US, for example, a builder has to obtain a Certificate of Occupancy from the local codes office. It insures that the houses were built in accordance with all applicable codes - building, site planning, environmental etc. If occupancy occurs without the Certificate of Occupancy, the owners can be forced to vacate. The lender shall look for compliance prior to purchasing the loans.

Risk Factors Related to Builders as Originators:

**Risk Concentration:** If the portfolio size is large and diverse, this will not be an issue. However, if the MFC is purchasing loans all of which are in one location and with similar characteristics, the entire portfolio could be affected by a single event resulting in a downturn in the economy.

**Value and condition of the asset:** In this scenario, the originator has an identity of interest with the builder and there is no "check" on the quality of the asset. As a result, there is substantial risk to the purchasing lender. Borrowers who are unhappy with the quality of their home will often refuse to make their loan payments. At the same time, poor workmanship often leads to deterioration; high repair costs may make home improvements unaffordable. Both can significantly diminish the value of the asset.

One of the **strategic opportunities** for EHFC, which can be realized through the relationships with builders, is a longer-term and a wider impact through advancing the standardization of underwriting and eligibility criteria across the industry, as the future buyers/borrowers can be pre-qualified by the mortgage company.

The company is offering four housing products, however the portfolio is largely the basic Home Purchase Loan.

Product/Terms	Interest Rate, p.a.	Term, years	LTV	Processing Fee
Home Loan	14%	10	75%	2.5%
Home Extension Loan	14%	3 - 10	75%	2.5%
Home Improvement Loan	16%	5	20%	2.5%
Second Unit/Vacation Home	15%	7	50%	2.5%

EHFC appears to be doing good background research on the product design and has:

- Access to market, borrower and developer information
- Ability to innovate and internalize the knowledge and build skills

- Basic openness to problem solving, interaction and team work of operations/credit and strategy groups
- Desire to serve customer well
- Potentially active cross sell with EAB (savings and housing), which for now looks more like a conflict of interest for the Bank, as it offers consumer cash loans on more favorable terms for the same purposes.

Other important **strategic considerations** for sustainable growth and institutional development should be addressed:

- Formalize a business development and marketing function while cultivating the sales culture; leadership in this area is of utmost importance.
- Formalize a Credit Committee function and use it as a training and accreditation tool for the loan officers. Regional expansion of the company would depend on the cadre of experienced loan officers trained through the committee.
- Introduce a formal risk management function and set up Asset Liability Committee especially in the light of forthcoming debt financing.
- Tailor the loan documentation and policy manual to the local context, level of expertise, available products and services. A sample loan application form is included in this report appendix 12.
- Develop a Loan Workout Manual;
- Change the terminology for the position of a loan officer (now depending on the function performed or a stage of a loan cycle, the same person is called either customer service officer, operations officer or credit officer. A suggested job description is included as an appendix to this report.
- Design an incentive plan based on productivity and portfolio quality;
- Design and introduce a loan monitoring function as a part of the overall portfolio management strategy (specifically for the self-employed customers relying on their business to service the loan). Track down the risk exposure to the industry concentration as a source of customers' income.
- Explore the option of setting up an investor reporting option in the new MIS. EHFC is in the process of IT implementation introducing Greatplains GL and Banking Module that have been functional since February 2005 and eventually integrating it with a Loan Servicing Module (β-version was scheduled to be installed in July).
- Develop in-house expertise in property appraisal for monitoring the soundness of the assessment methodology applied by appraisers (appraised value vs. purchase price; in some cases the appraisers employ a replacement cost approach when there are records on comparable sales or when they are not reliable; cost replacement method would yield a higher property value.
- Develop financial analysis skills with the loan officer.

## GENERAL RECOMMENDATIONS

In countries such as Egypt, where the traditional capital market is not lending or are pricing their product for high-end customers there is an opportunity for a knowledgeable and strategic development mortgage finance entity that knows its customer and market. The lack of non-judicial foreclosure and property registration problems will restrict the liquidity of the loan portfolio or eventually affect pricing. However, the current situation represents a great opportunity to selectively and consciously build knowledge, a customer base and product expertise.



Strategically:

- Refine the parameters and objectives with the long-term in mind
- Key choices to be made are on volume, capital, geographic target, borrower and stock – building on core competencies and market experience

Based on above choices and direction

- Evaluate risk pricing options
- Get clear where and what the company wants to learn and set guidelines and a product development cycle accordingly
- Develop training and systems to expand housing lending expertise –define the niche and educate all levels of the organization
- Use housing products to build SME lending skills – essential in underwriting self-employed customers

Procedurally:

- Extend the pilot and more formally define the limits and situations which are to be tested such as simple construction lending, bridge lending, or acquisition and rehabilitation financing
- Develop a risk pricing model and test it
- Expand data collection to include borrower and property characteristics that level patterns
- Limit and focus any marketing to target product to avoid a flood
- Map the process and identify challenges, timing at each stage and who does what and when
- Get the process on paper but do so in an interactive way with key staff/lenders and managers. This process will build knowledge, result in a manual, and build a partnership between the main office and potential branches as the business expands geographically.
- Develop a system for problem solving which includes experienced housing and real estate experts both in and out of Egypt. The learning culture exists, but the real estate resources/experience is modest at this time. Keep inventorying Egypt- based expertise.

**Training Needs**

- |   |
|---|
| <ul style="list-style-type: none"><li><input checked="" type="checkbox"/> Customer Service and Sales</li><li><input checked="" type="checkbox"/> Marketing</li><li><input checked="" type="checkbox"/> Business Development (for Executive Officers)</li><li><input checked="" type="checkbox"/> Basics of Accounting &amp; Financial Statements for Loan Officers (as prerequisite for financial analysis)</li><li><input checked="" type="checkbox"/> Financial Analysis (two levels: 1. Basics for beginners and 2. Advanced for analysis of self-employed applicants). At present the portfolio is split into 90% of salaried customers and 10% of self-employed. Due to the EHFC's remote location the proportion of self-employed applicants is going to increase, as they are more flexible with the timing unlike the salaried people with set working hours</li><li><input checked="" type="checkbox"/> Appraisal (two levels: 1. Basics for general understanding across all lending staff, and 2. Advanced for the professional staff)</li></ul> |
|---|

- |   |
|---|
| <input checked="" type="checkbox"/> Portfolio management and workout<br><input checked="" type="checkbox"/> Basics of appraisal for Loan Officers (including the legal aspects) |
|---|

### Technical Assistance

- |   |
|---|
| <input checked="" type="checkbox"/> Developing a credit scoring model |
|---|

## RECOMMENDATIONS FOR TECHNICAL SUPPORT BY EFS

TMC<sup>5</sup> is facing numerous challenges and recognizes that it does not possess within the organization all the skills required for further institutional development. EFS management requested that this report addresses TMC' needs (more specifically training needs) and describe ways EFS can assist TMC in making it a success.

### TECHNICAL SUPPORT FOR HOUSING FINANCE

Currently, TMC does not have the staff expertise to turn its current operations into the efficient and streamlined mortgage lending company executive-level management envisions. It is recommended that an outside consultant provides the required assistance. Proper training of TMC personnel will not only enable TMC to meet the housing finance needs of its customers while maintaining the appropriate level of risk, but will also turn TMC into a model company to be replicated and thus, mortgage customers will be better served. TMC is still small enough at this time to make adjustments to the policies or products as appropriate.

Recommendations are grouped into key segments and in order of priority as opined by the consultant.

### TRAINING

It is critical that TMC employees be trained in best practices in mortgage lending and how best to work within this market. All the trainings listed are important for the success of the project. Mortgage credit skills and sales experience are not evident in existing TMC staff, so are put as the highest priority. Consultants will work closely with the senior management and heads of credit, commercial/originations and risk management (when, and if, introduced) in the following area.

**1. Credit Training for Loan Officers.** The credit training modules cover every step of mortgage lending from the first meeting with the customer to monitoring the loan, using relevant case studies. Both classroom and on-the-job training is recommended.

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<sup>5</sup> To be efficient and create a long-lasting impact, the Technical Assistance needs to be actively sought by the recipient, who has an organizational structure and capacity to internalize the knowledge. TMC has been very proactive in articulating their needs and there is a clear management buy-in into the idea of bringing the external expertise into the company. Considering that EHFC: (1) currently has access to Technical Assistance and know how resources of its shareholder; (2) has been enjoying in-house expertise of a resident advisor (3) is more advanced in some technical areas, the Consultant provides recommendations mostly addressing the needs of TMC. However, most of the recommendations are of general character and would be beneficial for both companies, especially in terms of the training and skills development.

**2. Sales and Marketing Training.** Training on how to market housing finance products, how to prospect new customers, and time management. Training involves both classroom and on-the-job training.

**3. Risk Management Training.** Training on the risks accounted with working with a mortgage customer, and how best to manage them. Ensure that a credit risk policy is in place, necessary MIS reports are available to analyze the portfolio. Ensure prompt and appropriate action is taken on problem loans or potential problem loans.

**4. All Employee Customer Service Training/Product Knowledge.** This training provides all employees with an understanding of a “targeted customer”. It will familiarize the employees with products available for this market segment. Training will also include “internal customer”.

**5. Training of Trainers (TOT).** After approximately 12 months of working in the housing finance market, selected individuals will participate in a TOT course. This will enable TMC to internally train new loan officers and to expand the mortgage operations to other locations.

**6. Review /Refresher Training.** A follow up review of the mortgage portfolio and lending procedures will be conducted after a six-month period. Areas where loan officers might need some additional training will be identified and refresher training will be conducted with the assistance of the TOT trainees.

## TECHNICAL ASSISTANCE

Areas in which technical support of EFS could be applied are listed below:

**1. Assistance in the Writing of Policies and Procedures for Housing Finance.**

This manual, tailored for TMC, will provide current and future employees with best practice guidelines for mortgage lending.

**2. Perfecting the Loan Forms and Loan Documentation.** The design of all the forms will provide ease of use by the customer and Loan Officer yet will provide sufficient information to make an informed credit decision.

**3. Assistance in Formulating a 3-year Business Plan, Financial Projections, Mission & Vision Statements, Monitoring Goals and Developing Incentives.**

The proposed courses and time frames for each course can be seen in Appendix 10. Prompt implementation of this next training phase is critical as expectations among the employees are high. This momentum needs to continue.

## **APPENDICES**

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- Appendix 1 List of Interviews
- Appendix 2 Bank Mortgage Lending
- Appendix 3 Developers Terms and Conditions
- Appendix 4 TMC Organizational Chart
- Appendix 5 Policy Outline
- Appendix 6 Training Agenda
- Appendix 7 ALCO Terms of Reference
- Appendix 8 Loan Officer Job Description
- Appendix 9 Training Agenda
- Appendix 10 NIVIS MIS Description
- Appendix 11 Loan Application

## Appendix 1: List of Interviews

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### EFS

1. Allen Decker, Chief of Party
2. Amal Ezz El-Din, Real Estate Finance Specialist
3. Kevin O'Brien, Team Leader Task 1
4. Manal F. Shalaby, Senior Financial Advisor
5. Amal Ezz El Din, Senior Real Estate Advisor
6. Lamia A. El-Zufzafy, Organizational Development Specialist
7. Aser F. Obeid, Research & Training Assistant
8. Marian Mishriki, Financial/Credit Specialist Credit Information System
9. Lubna Salem, Training Specialist
10. Ibrahim Sabri, Senior IT Advisor
11. Noha Sobhi, Association Development Specialist
12. Hassem Hemedda, Real Property Registry IT Specialist
13. Samir Lotfy, Business Process Reengineering Specialist
14. Gameil Ibrahim, Short-term Consultant Task 2

### EFS Consultants

1. Noel Taylor, Vice President of International Programs, International Land Systems, Inc.
2. Maksym Kalita, LTO Project Manager, International Land Systems, Inc.
3. Eric A. Abbott, Professor, Iowa State University
4. David Wilkes, Senior Legal Specialist, Huff Wilkes Attorneys
5. Arthur Dimas, Attorney

### El Taamir Mortgage Company

1. Eng. Mohamed Magd El Din Ibrahim, Chairman and Managing Director
2. Wageeh Fahmy El Nabarawy, General Manager Finance
3. Aly El Laban, Vice Chairman, Managing Director
4. Walid Mosaad, Engineering Department Manager
5. Nagui Fahmi, General Manager, Commercial
6. Marawan Morsi, Operations Manager
7. Ahmed El Demerdash, HR & Administration Manager
8. Mohamed El Kahki, Deputy General Manager IT Department
9. Abdullah Roshdy, Deputy General Manager Credit Department
10. Ashraf Darwish, Deputy General Manager Legal Department
11. Ahmed Yehia, Marketing Specialist
12. Osama Esmet, Verification Officer
13. Noha Abou Hussein, Unit Head Customer Service
14. Manar Zamzam, Credit Officer

EFC

1. Hala Basiouny, CEO
2. Khaled Hatem Younes, Chief Operating Officer
3. Mohamed S. Bendary, Chief Financial Officer
4. Dina Khames, Deputy Head Customer Service Department
5. Tamer S. Gaafar, Lawyer
6. Mai Omar, Deputy Head Customer Service Department

Mortgage Finance Authority

1. Sherif Wahdan, MFA Chairman Assistant

Developer

1. Said Mustafa Abbas, Corporate Finance & Investor Relations Manager, Alexandria Real Estate Investment Co.

## Appendix 2: Overview of Bank Mortgage Lending Terms & Conditions (July 2005)

Bank Name	Target group	Min, EGP	Max, EGP	Interest, % p.a.	Tenor, years	LTV	Borrower's Age	Installment to Income ratio	Conditions
<b>CIB</b>	CIB staff	25,000	1,000,000	10.5 % floating	15	70%	21 – max 60 at loan maturity	40%	<ul style="list-style-type: none"> <li>-Property registration to be made by the client.</li> <li>-Life &amp; property insurance</li> <li>-Floating interest rate according to the market conditions.</li> </ul>
	Affiliated companies			13.5% floating					
	& Corporate clients								
<b>NSGB</b>	Any client who transfer his/her salary to NSGB	100,000	1,000,000	11.5%	Up to 10	80%	21 - max 60 at loan maturity	30%	<ul style="list-style-type: none"> <li>-Minimum salary 5,000 EGP monthly</li> <li>-Egyptians only</li> <li>-Installments debited from the account</li> <li>-Registered units only</li> <li>-CBE investigation</li> </ul>
<b>MIBank</b>	All clients with banking history of more than 2 years with MIBank & transfer of salary	50,000	200,000	8% Flat (around 12-13%)	Up to 10	50%	23- max 60 at loan maturity	Not announced	<ul style="list-style-type: none"> <li>-Egyptians</li> <li>-1 year minimum in current work</li> <li>-2 years minimum working experience</li> <li>-Minimum salary 18,000 EGP annually</li> <li>-Free life insurance</li> <li>-Bank evaluates the property</li> <li>-1% administration fee.</li> </ul>
<b>H&amp;D Bank</b>	Any client who transfers his/her salary	-	-	15%	Up to 10	75%	21-60	Up to 50%	<ul style="list-style-type: none"> <li>-Salary transfer</li> <li>-Life insurance</li> <li>-Loan disbursement for Properties under construction could be divided into separate payments</li> <li>-Minimum 3 years with the current employer (could be less) &amp; a guarantor with income equivalent to the borrower's salary.</li> </ul>

Average interest rate: 12.5% (MFC's 14%), Average tenor 11.25 years, average LTV 40%, average required salary 3000 EGP.

\*Sources: call centers, web sites & organizations' staff.

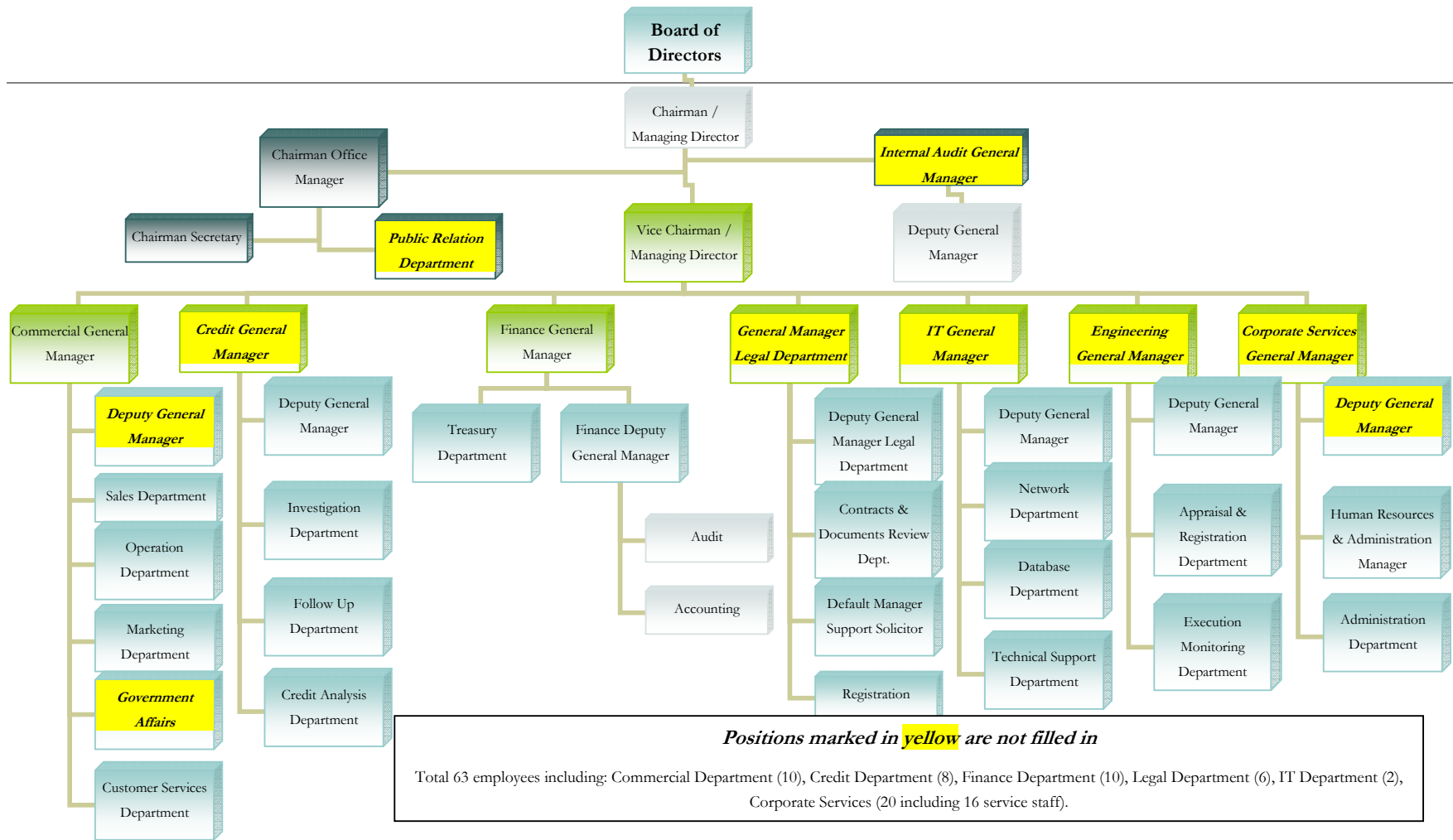
### Appendix 3: Overview of the housing presale terms and conditions (July 2005)

City compound name	Down payment (%)	Upon receiving or contract signing - (%)	Installments (%)	Interest rate applied (%)	Payment frequency (mnthly/qrtrly)	Loan life (Year)	Cash discount (%)
Palm City	10	15	75	0	M	5	10
Green Villas	10	-	90	-	Q	5	20
New Heliopolis	15	-	85	-	M	20	Call
Al Forsan	20	10	70	-	M	2	Call
	15	10	75	-	M	8	Call
Bourevag Fayed	15	-	85	8% decreasing	M	10-May	5%
Casablanca –Villa	10	-	90	6.5% decreasing			
- Chalet	15	-	85		M	10	Preset
Cascada	10	15	75	-	M	5	Call*
Al Ashrafia	30	-	70	-	M	8	15
Utopia	10,000 LE	-	Remaining	-	M	1	NA
First Heights	10	-	90	-	M	5	Call
Grand City (Arab Land Bk.)	15	-	85	-	M	8	NA
Mina 4	25	-	75	-	M	3	12
Green Valley	5	-	95	-	M	5	NA
Beverly Hills	25	15	65	-	M	3	NA

*\*Source: Developer's and Construction Companies' flyers from the mortgage finance fair & newspaper ads.*



## Appendix 4: El Taamir Mortgage Company Organizational Chart, July 15, 2005



## Appendix 5: Outline of Internal Credit Policy

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### OUTLINE OF INTERNAL CREDIT POLICY Operations Manual

1. Introduction
2. Mortgage Company's Vision & Mission
3. Concepts and Terminology
4. Confidentiality/Conflict of Interest
5. Scope of Credit Extensions / General Lending Guidelines
6. Product Description
  - 6.1. Acquisition (Upgrade, Trade Up or First Time Home Buyers)
    - 6.1.1. With pre-qualification
    - 6.1.2. Without pre-qualification
  - 6.2. Acquisition (Second Unit/Vacation Home/Investment Property)
    - 6.2.1. With pre-qualification
    - 6.2.2. Without pre-qualification
  - 6.3. Home Improvement/ Renovation/Finishing Loans
  - 6.4. Construction
    - 6.4.1. Ground up Construction of free standing house or town house
    - 6.4.2. Take Out Construction Financing
7. Portfolio Mix, Concentrations, and Goals
8. Loan Pricing
9. Credit Approval & Individual Credit Authorities
10. Credit Analysis & Credit Committee Presentation
11. Employee & Related Party Loans
  - 11.1. Procedures for Granting Loans to employees (non-executives)
  - 11.2. Procedures for Granting Loans to shareholders, executive officers)
12. Procedures for Loan Origination
  - 12.1. Applicant's Screenings
    - 12.1.1. Role of the Loan Screener
    - 12.1.2. Application Screening Procedures
  - 12.2. Underwriting Procedures
    - 12.2.1. Completion of the Application Form by Client
  - 12.3. Loan Officer Responsibility
  - 12.4. Qualifying Loan Applicants
    - 12.4.1. Income verification
      - 12.4.1.1. *Salaried individuals*
      - 12.4.1.2. *Entrepreneurs/business owners*
      - 12.4.1.3. *Individual licensed professional practitioners*
    - 12.4.2. Income calculation
    - 12.4.3. Appraising net worth
    - 12.4.4. Financial Commitments
    - 12.4.5. Character of the Borrower
    - 12.4.6. Credit History of the Borrower
    - 12.4.7. Employment Situation
      - 12.4.7.1. *Guarantors*
  - 12.5. Underwriting criteria for different products
    - 12.5.1. LTV

- 12.5.2. Debt Service Ratios
  - 12.5.2.1. *Property Taxes, Insurance and Other Debts*
- 12.5.3. Loan Amortization
  - 12.5.3.1. *Ground-up Construction*
    - 12.5.3.1.1. Loan Approval phase
    - 12.5.3.1.2. Project Approval phase
    - 12.5.3.1.3. Use of proceeds/Construction Cost Budget and Timeframe
    - 12.5.3.1.4. Borrower's Contribution
    - 12.5.3.1.5. Monitoring of Construction Progress
    - 12.5.3.1.6. Stage Financing
- 13. Procedures for Refinancing loans
- 14. Real Estate Appraisals
  - 14.1. Appraisal Guidelines
  - 14.2. Environmental Risk
- 15. Loan Closing Procedures
- 16. Disbursement Procedures
- 17. Loan Monitoring
- 18. Risk Rating System
- 19. Loan Loss Reserves
- 20. Write – Offs
- 21. Problem Assets and Non – Accrual Loans
  - 21.1. Property Taxes
- 22. Credit and Collateral Files
  - 22.1. Maintaining Mortgage Records
  - 22.2. Records Retention
  - 22.3. Safety and Confidentiality Procedures
  - 22.4. Disaster Recovery Procedures
- 23. Treasury Guidelines
- 24. Maintaining Insurance Coverage
- 25. Handling Requests for Changes in Ownership
- 26. Collecting Mortgage Payments
  - 26.1. Processing Partial Payments
  - 26.2. Processing Excess Payments
  - 26.3. Processing Early Repayments
- 27. Monitoring and Late Payment Actions
- 28. Foreclosure Procedure if decision is to be undertaken not to outsource this activity.










## Appendices for the credit operations manual

**APPENDIX 1: GENERAL TERMS AND CONDITIONS FOR MORTGAGE LENDING: PRODUCT DESCRIPTION**  
**APPENDIX 2: LIST OF REQUIRED DOCUMENTS FOR CREDIT/COLLATERAL FILES**  
**SECTION 1: DISBURSEMENT AND MONITORING**  
**SECTION 2: APPROVAL**  
**SECTION 3: LEGAL**  
**SECTION 4: SUPPORTING DOCUMENTATION**  
**APPENDIX 3: SCREENING FORM**  
**APPENDIX 4: APPLICATION FORM**  
**APPENDIX 5: LOAN CLOSING CHECK LIST (PER EVERY PRODUCT TYPE)**  
**CHECK LIST FOR INDIVIDUALS**  
**CHECK LIST FOR SELF-EMPLOYED INDIVIDUALS**  
**APPENDIX 6: LOAN INSTALLMENT CALCULATION TABLE**  
**APPENDIX 7: INTEREST RATE CALCULATION TABLE**  
**APPENDIX 8: WORK FLOW CHARTS**  
**APPENDIX 9: GUIDELINES FOR REAL ESTATE APPRAISAL**  
**APPENDIX 10: MONITORING FORM**  
**APPENDIX 11: BUSINESS ANALYSIS FORM**  
**APPENDIX 12: LOAN SUMMARY**  
**APPENDIX 13: PRE-APPROVAL FORM**  
**APPENDIX 14: FINAL APPROVAL FORM**  
**APPENDIX 15: UNDERWRITING AUTHORIZATION FORM**

## Appendix 6: Suggested Training Agenda

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### Suggested Training Agenda

-  General Overview of Mortgage Lending: concepts and terminology
-  Legal Environment: REFL and ER
-  MFA Regulations
-  Loan Products
-  Loan Origination
  - ▶ Marketing
  - ▶ Screening & Pre-qualification
  - ▶ Loan application
    - detailed income & expense information (household budget, elements of financial planning in customer education)
    - number of dependents
    - balance sheet items (assets, liabilities, net worth)
    - savings habits
    - verification of availability of the closing fees
    - credit history
  - ▶ Loan processing
  - ▶ Loan commitment
  
-  Loan Underwriting
  - ▶ eligibility standards and implications for the secondary market / defining eligibility (eligible borrower, eligible property)
  - ▶ underwriting the borrower (salaried versus self-employed customer)
    - employment and income (with consideration of the employment term and competitiveness of the borrower's skills, employment history and the salary/income trends)
    - verifying assets, liabilities and net worth
    - financial mathematics: understanding interest rate, installment calculation and amortization schedule
    - determining amount of funds borrower needs
      - verifying *source* of funds
      - analyzing debt-to-income ratios
      - analyzing LTV and variations
      - analyzing borrower's willingness to pay
    - underwriting the property and defining an eligible property
      - appraisal process
      - appraisal standards
      - approaches to estimating the property value
      - appraiser qualification
  
-  Loan Closing
-  Credit File
-  Loan Servicing
  - ▶ general servicing activities
  - ▶ record maintenance & custody
  - ▶ cash management & accounting
  - ▶ investor reporting
  - ▶ property tax & insurance administration
  - ▶ collections & late charges

- ▶ foreclosure & property management

#### Portfolio Management & Problem Loans

#### Advanced Topics in Financial Analysis (for commercial real estate and self-employed individuals)

- Introduction to Financial Analysis (BS, IS, Ratios and trends, IAS)
- Cash Flow Statement – principles, concepts, projections
- Break Even and Debt Service

#### Specialized Training on specific products

- Commercial RE
- Construction/Rehab Loans

- Risk Management: Identifying, Measuring & Monitoring & Managing
  - ⊕ Risk classification (credit, market, reputation, operational, foreign exchange, liquidity, market, strategic, legal, technology)
  - ⊕ Basics of Asset Liability Management
  - ⊕ ALCO

- Overview of the Secondary Market Structure
- Considerations for the Developing Economies

#### Local training resources:

- Cairo University: foreclosure (4-day course, delivered by the Legal Counsel of the Ministry of Justice)
- American University: property registration (4-day course, delivered by the University Law Professor)

**As a long term strategy: Training in Corporate Governance for the Board of Directors and development of a Governance Manual.**

## **Appendix 7: Asset/Liability Management Committee (ALCO) Proposed Terms of Reference**

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### **ASSET / LIABILITY MANAGEMENT COMMITTEE (ALCO)**

#### **Proposed Terms of Reference**

Appointed by: The Board of Directors

Members Deputy Chairman/Chairman of the Board  
Head of Asset and Liability Management / Head of Treasury  
Head of Economic Research/Credit Analysis Department  
Head of Credit Department  
Head of Commercial/Branch system,  
CFO / Chief Accountant

Quorum: Four, one of whom must be the Chairman or Deputy Chairman, Treasury or Asset and Liability Management

Meetings: Minimum monthly with others as required

Chairman: Deputy Chairman/Chairman of Board

1.0 Main Responsibilities: Direct funds acquisition and allocation; prepare alternative scenarios; monitor budgets; and strategic plan

1.1 Liquidity and Market Risk Management

1.2 Management of the Mortgage Company Capital

1.3 Managing Reports to Investors, Creditors and other Outside Agencies

1.4 Report to the Board of Directors/Council

2.0 Functions:

2.1 Set and monitor the implementation of policies for:

- a. interest rates (general pricing and required spread differentials)
- b. composition and allocation of balance sheet resources
- c. investment of surplus funds
- d. structural (i.e. positions in the normal course of business activity)  
currency positions
- e. non-structural (i.e. management created) currency positions
- f. liquidity management

- g. interest rate risk management
  - h. hedging currency risk
  - i. risk from new products
- 2.2 Review and approve policies, controls and guidelines for the day-to-day management of:
- a. investment of surplus funds
  - b. foreign exchange exposure
  - c. liquidity
  - d. interest rate mismatching
  - e. financial and other market-related exposure
  - f. off-balance sheet exposures (i.e.) guarantees, forward foreign exchange and major capital expenditure
  - g. risk from new products
  - h. operational risk
- 2.3 Approve policies and guidelines for measuring, authorizing and controlling transactions in new financial instruments or new areas of trading risk.
- 2.4 Consider and approve limit structures and limits for trading and dealing operations
- 2.5 Consider, approve and as appropriate, delegate, limits and levels of authority for approving exposure for:
- a. longer-dated position taking
  - b. dealing hedging mismatching
  - c. Mortgage Company portfolio investments
- 2.6 Monitor regularly the aggregate:
- a. liquidity positions
  - b. foreign exchange dealing positions
  - c. other foreign exchange positions
  - d. interest rate mismatches
  - e. maturity mismatches
  - f. security position
- 2.7. Receive reports each month on the profit and loss from market related activities to ensure that the budgeted return on allocated resources is achieved and that the return relates to the risk taken.
- 2.8. Receive reports from the Head of Finance or Accounting on all positions which are outside approved limits.
- 2.9. Approve policies and procedures for training and maintaining the appropriate skill levels in relation to the control and monitoring of treasury and security exposures.
- 2.10. Monitor capital adequacy and other ratios



- 2.11. Set policies for allocation of resources to business units on a risk adjusted basis consistent with Mortgage Company strategy
- 2.12. Set standards of performance for the execution of financial management and risk management policies.
- 2.13. Review periodically investment policy consistent with the objective of providing a substantial liquidity buffer and for absorbing exceptional losses.
- 2.14. Report to the Board of Directors each month on the performance of the above
- 2.15. Assure that minutes of the meetings are kept and presented at the commencement of the next meeting
- 2.16. Ensure that the Mortgage Company is in compliance with MFA requirements on Accounting and Reporting

### **Representative Policies and Limits**

- Policies governing types of approved investment securities

- Limits on amounts as % of total assets
- Mix of investments for diversification
- Maturity of investments

- Lending policies

- Concentrations of loans by risk factors
- Maturity of loans
- Requirement for assuring funding availability
- Large loan matched funding

- Use of financial derivatives

- limited to hedging purposes

## Limits

- Maximum investment per obligor
- Minimum risk weighted and total capital
- Compliance with MFA normatives
- Target for ROE
- Target for ROA
- Minimum liquid assets to total assets
- Minimum provision for loan losses to total average loans by loan type

## ALCO Reports

### 1. *Economic and Market Commentary*

- Summary of major economic and international developments
- Expectations for interest rates, deposit trends, loan demand
- Regulatory environment
- Inflation and exchange rates
- Competitive analysis

### 2. Balance Sheet

- Summary form with major trends over previous month and YTD
- Include variances of actual relative to plan

### 3. Capital

- Detailed statement of capital
- Capital adequacy (MFA & Central Bank)
- Projected capital adequacy
  - Dividend assumptions

### 4. Funding

- Cost of funds (weighted average)

### 1. Securities/Investments (separate data for classes of securities, including yield, maturity and profitability)

- Amount held, average yield, cost, currency gain/loss
- Interest rate risk

2. Loans and leases (detailed information on credit portfolio which has impact on funding decisions, interest rate and FX risk, and profitability)
  - Trend in total portfolio
  - Concentration
    - By risk rating
    - By sector
    - By size
    - Large exposures
    - % attributable to 10 largest exposures
    - By branches and head office
  - Maturity profile
  - Interest rate pricing profile and average weighted yield
  - Outstanding commitments
  - Credit quality information (and new provisions)
  - Exposure by product type and collateral
3. Liquidity
  - Liquidity ratio
  - Schedule of maturity gaps
  - Contingency plan
4. Foreign Exchange Transactions (when applicable)
5. Profitability, Pricing and Asset Allocation
  - Monthly management accounts
  - Performance vs. budget
  - Trends in interest margin
  - Marginal cost of funds
  - Profitability of securities portfolio
  - Return on assets, return on capital
  - Peer group analysis

10. Exceptions reporting

Minimum ALCO Reporting

1. Comparative monthly, quarterly and annual balance sheet, income statement, and statement of cash flow

- Compared to prior periods
- Compared to plan/budget

2. Comparative monthly, quarterly and annual actual and budget for all significant profit and cost centers

- Including key measures of activity
- Including return on average risk weighted capital

3. Projection of liquidity needs (min. 90 days detailed projection) based on

- Loan commitments and estimates
- Liability maturities and demands
- Off-balance sheet commitments

4. Projected sources of funds (min. 90 day detailed projection) including

- Loan repayments
- Borrowing

5. List of (10-25) largest borrowers /sources of funds and changes

6. Statistical data--% and trends in tabular and/or graph form

- Yield on assets—cost of funds
- Net interest margin
- Efficiency ratio
- ROE and ROA
- Yield on total earning assets and yield on securities
- Earning assets to total assets

## Appendix 8: Sample Job Description

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Date written:

Position: **Deputy Credit Department Manager / Senior Loan Officer / Loan Officer**

Department: **Credit**

Salary Range: **XXX EGP – XXX EGP**

Supervisor's Title: **Credit Department Manager**

**Position Summary:** Performs credit analysis and underwriting on accounts handled by the Commercial Loan Department, including new applicants and existing borrowers. Assists in training other credit personnel.

**Reporting Relationship:** Reports directly to the Credit Department Manager along with the junior Loan Officers. Assists the Manager in evaluating the development of those involved in the training program.

### **Primary Skills/Experience Required:**

1. Basic Level of Accounting
2. Familiarity with MFA regulations
3. Familiarity with basics of property appraisal guidelines
4. Credit Analysis – including ability to analyze financial statements and prepare projections
5. Ability to conduct research
6. Computer literate (MS Office Applications)
7. Written, oral/presentation communication skills

### **Major Accountabilities:**

1. Contribute to the loan decision-making process by providing in-depth, high-quality credit analysis;
2. Contribute to sound portfolio management by preparing specific reports as requested by the Manager;
3. Monitor compliance with regulations for the mortgage industry affecting the lenders; monitor compliance with policies established by the Mortgage Company;
4. Contribute to the Development of other credit personnel by assisting the Manager in the training function;

### **Specific Underwriting Responsibilities and Duties:**

1. Review all information and the loan application obtained from the loan applicant for adequacy, completeness, and compliance with all Mortgage Company's requirements. Identify and resolve any issues raised by review.
2. Ensuring that outsourced verification covered verification of income and employment histories of loan applicant(s) by calling or visiting employers and former employers, or by visiting current workplace; a visit to the current work place and minimum verbal employer confirmation are compulsory for verifying non-documented income. As a general rule, employment track record for the

current job should not be less than 3 years; any exception to this rule should be argued based on excellent references from current job, confirmation that any trial period is over. For professionals (including licensed practitioners) a 2-year activity track record is normally required. No business income will be taken into account if the business is less than 3 years old. Loan officers should pay particular attention to the applicant's employment track record and identify any past employment conflicts/problems as stated this document.

3. Verify the applicants' formal incomes (and to the extent possible informal income as well).
4. Crosscheck applicant's (historic) income (e.g. by identifying any major purchase in the past year, by verifying the savings behavior of the applicant).
5. Verify the applicant/co-applicant's living standard by visiting their home, unless the income is 100% documented, there is sufficient employment track record and the applicants' general financial and social standing is clear and standard.
6. Visiting the applicants' current home is compulsory when the actual income does not coincide with the documented income or when the employment track record is less than normally required, or the employment track record is not clear, or when the incomes are generated by a micro business. The loan officer should check whether quality and value of personal assets is congruent with stated income e.g. very high value assets with low cash flow or reverse claims very high cash flow but living standard suggest opposite. This is an indicator of non-documented income.
7. Verify existence and source of borrower's down payment.
8. Verify existing credit history and repayment history (if any).
9. Determine the debt service coverage (or Debt-to-Income) ratios (1) the expense-to-income ratio, comparing the borrower's housing expenses (principal, interest, taxes & insurance) to the borrower's income; and (2) total debt-to-income ratio, comparing the borrower's total obligations including housing expenses and other debt – to the borrower's income and loan amount that will be used in the loan underwriting and recommendation to credit committee.
10. *Unless it is a pre-qualification*, inspect the subject property or review the property appraisal report provided by the Mortgage Company's appointed construction/property specialist or appraiser *prior to submission to credit committee*. Determine the underwriting value of the subject real estate as per the guidelines to real estate appraisal (should be a part of the Credit Policy).
11. Prepare loan narrative and financial analysis for the loan applicant's credit request (templates are part of the Credit Policy).
12. Submit the loan request to Head of Credit for a review prior to submitting the loan file to the Credit Committee.
13. *For pre-qualification cases* prepare commitment letter (also a part of the Credit Policy). Submit to Head of Credit for review prior to releasing.
14. *If a pre-qualification is issued*, review and approve property appraisal prior to expiration of commitment letter.
15. Review all information obtained from non-Mortgage Company employees (i.e. outsourced verification agency, real estate appraisers, construction contractors, etc).
16. Review and approve all lien searches of any properties being taken as collateral
17. Appraise/Verify Character/ Credit of the borrower.

18. Conduct and develop research projects useful to the lending function.
19. Assist in training and evaluating other credit personnel as requested by Supervisor. Experienced Senior Loan Officer will be expected to assume the role of an instructor in conducting the training sessions and seminars.
20. Identify and inform Supervisor of any violations on MFA regulations and policies regarding the credit quality established by the Mortgage Company's Board of Directors.
21. Participate in the Mortgage Company's business development program to promote services and develop new customer relationships. Identify new or additional services that a customer could use.

**Appendix 9: Technical Assistance Matrix**

<b>Technical Assistance</b>	<b>Participants</b>	<b>Objectives</b>	<b>Duration of Consultancy</b>
Development of Policies and Procedures Manual	Consultant will work on site with the Managers of all Departments.	To create a manual that provides employees best practice methods in mortgage lending tailored to the housing lending impediments in Egypt	4 weeks
Refinement of internal documentation	Consultants will assist in designing custom forms and documentation for the mortgage lending	Provide the customer and Mortgage Company forms and documentation that allow for ease of use and prompt processing	1 week
Sales and Marketing Training – Classroom and On-the-Job	Customer Service Officers, Credit Officers, Commercial Department Officers, Marketing Officers, Government Relations Department	Learn how to best market the mortgage product, attract and find customers, and retain current customers.	1 month
Credit Training	Loan Officers, Credit Officers, Commercial Department Officers	Classroom training will take the loan through all phases of mortgage lending: origination to monitoring.  A consultant will work side by side with Loan Officers to ensure a complete understanding of the process lending.	6 days  1-2 months in conjunction with Sales Training
Risk Management Training	Senior Management, Executive Officers, Risk Manager	Understanding of the nature of business – how to not to deny or avoid risk, but how to best manage risk. Identifying and working with problem loans.	3 days
Customer Service Training	All employees	Understanding the housing finance customers and their needs.  Mortgage product knowledge across all staff.	1/2 day seminars throughout a week



Training of Trainers	Selected Employees	After approximately 6 months of experience, train certain employees to train new loan officers and to staff the expansion of the Mortgage Company.	1 week
Review of Performance and Refresher Training	Loan Officers and Risk Management	Refresh and review of areas in which there might be problems.	1 week
New Product Development	Customer Service Officers, Marketing Specialists	Refine the existing products; Develop and package new products for the housing finance needs. Classroom and on the job training.	1 month

## **-Appendix 10: NIVIS MIS Description**

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### **NIVIS MIS Description**

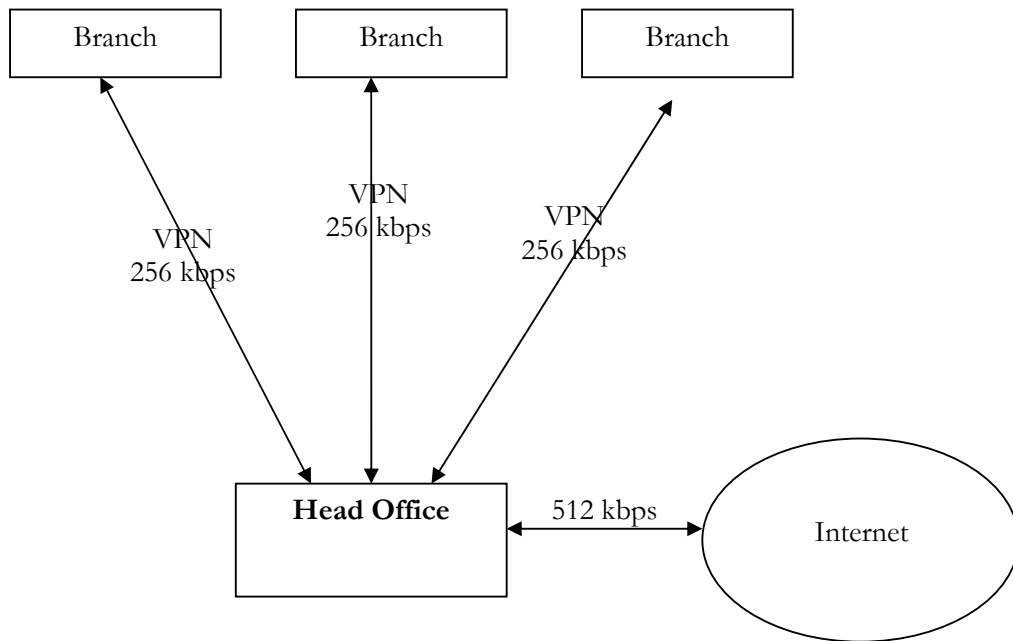
*The Credit Management software is composed of Client Screening and Unibank modules that are Client/Server applications developed in C# on Microsoft Dot NET platform. Both modules use the same database, powered by Microsoft SQL 2000 Server. Document Management System module is developed on Microsoft SharePointPortal 2001 Server.*

Both Microsoft SQL 2000 Server and Microsoft SharePointPortal Server are installed on a Windows 2000 Server machine (Application Server) that is member server on company's Microsoft Windows 2003 Active Directory domain. Application Server is a HP Proliant ML370 machine, 2.4 GHz Intel Xeon Processor, 1 GB RAM, 3 HDD 72 GB in RAID 5.

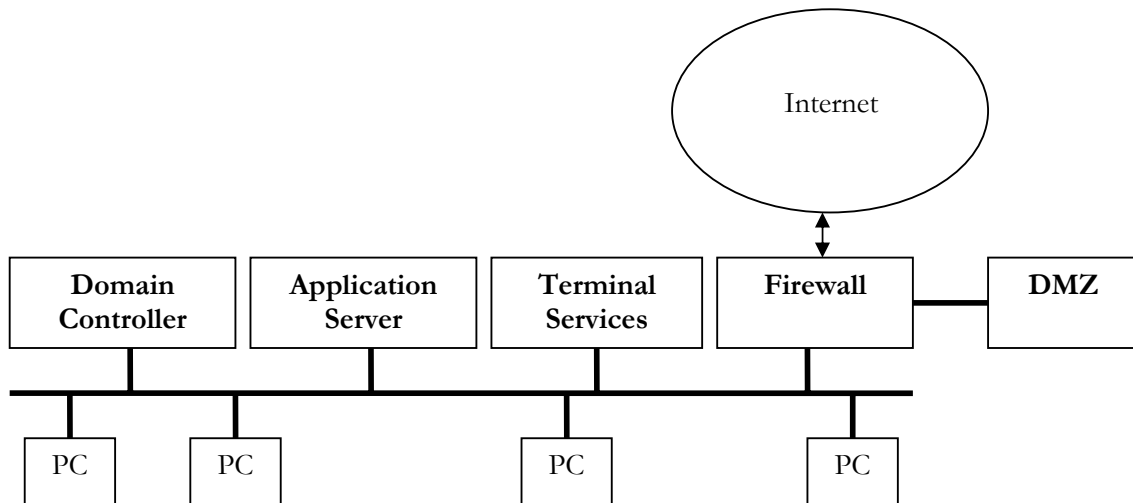
The user workstations are Intel-based PCs (Celeron or Pentium 4 processors) with at least 1.7 GHz processors and 256MB of RAM, running Windows XP Professional.

The Mortgage Company's branches are connected to the Head Office network using a Virtual Private Network always-on connection. Branch users are working online on the Head Office Application Server in two modes: using local installed client application or through Terminal Services sessions on a Head Office-based Microsoft Terminal Services Server. In order to gain access to these applications, the user must first log on to the Mortgage Company's domain controller, and then they must present their credentials to the application (username and password).

## Mortgage Company's Network Infrastructure



## Head Office Network



The Client Screening module handles potential client's database, the underwriting process, loan closing, contract generation and loan disbursement. It closely follows Mortgage

Company's credit procedures and it is an electronic version of the client's credit file, which comprises:

- Screening Form
- Application Form
- Summary of Loan Analysis
- Pre-approval Form
- Offer Letter
- Property Evaluation Report
- Final Approval Form
- Contract Generation Form
- Repayment Schedule Generation
- Disbursement Form

These forms are generated, based on their respective templates, from Client Screening into a Document Management System, where they are stored for each client in 3 files: Approval File, Offer File and Contract File. They can be printed and visualized both from Document Management System and Client Screening in the form of a Word document.

The Unibank module handles loan administration: current payment schedule, payment registration, payment processing, prepayments: partial and full, collateral - accounting registration, commitments – accounting registration, insurance monitoring, arrears, interest rate change and payment schedule recalculation. The Unibank has also a functionality that allows input of manual accounting records and it also allows for the import of an accounting records file in a CSV form from an external accounting management system Unibank supplies the final balance sheet for Mortgage Company, centralizing all accounting records generated during the month.

Both Client Screening and Unibank have a Reporting Module generated data on: application received, screening forms received, loans approved, loans disbursed, outstanding portfolio, client data, origination data, arrears, monthly reporting to the Central Bank (or any other regulating authority), assigned portfolio report, cash flow, balance sheet.

Available information about clients:

- personal and contact data
- income data
- property data
- insurance data
- loans data
- payment data



**APPENDIX 11: SAMPLE LOAN APPLICATION**

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This Application should be filled in jointly by the Borrower and Co-Borrower (when applicable), e.g. by both spouses if one of them applies for a loan. Please answer ALL questions below as completely and accurately as possible. If any questions are unclear, please consult the Loan Officer. It is not necessary for clients under any circumstances to make any unofficial payments above and beyond official costs listed in the brochures. You shall sign when paying and receive official receipts for all payments.

<p><b>I. LOAN PURPOSE</b></p> <hr/>		
<input type="checkbox"/> Purchase <input type="checkbox"/> Renovation <input type="checkbox"/> Purchase & Renovation		
Requested Amount.....EGP	Term..... years	Your contribution (down payment).....EGP

## II. ADDRESS OF THE PROPERTY TO BE FINANCED

PROPERTY YOU WANT TO BUY

PROPERTY YOU OWN (RENOVATION)

Address: City.....Area.....Street..... House. .... Block. ....

Entrance.....Floor.....Apartment..... Postal Code.....

Number of: Rooms..... Bathrooms:.....Total space (sq.m.):..... Residential space (sq.m.).....Age of the property:.....

Land plot (sq.m.):.....

Market Value of the property:..... EGP

Amount you paid/will be paying (underline what applies) for this property: .....EGP

### PLEASE FILL THIS SECTION IF YOU ARE APPLYING FOR A RENOVATION LOAN:

Renovation Budget..... EGP.....Term of renovation.....months

Amount which you already invested into the renovation.....EGP

Source if financing the renovation up to now .....

Property Description according to the Technical Survey (registration #, cadastre #, etc.)

Intended use of the property:  Owner Occupied  Rental/investment property  Vacation House  Commercial

Other (please describe).....

Source of the down payment for the property you'd like to buy (e.g., savings, other loans, etc.):

## III. PERSONAL DATA

**BORROWER**

**CO-BORROWER**

Name. .... .....				Name. .... .....			
<u>Address (registration):</u> City.....Area.....Street..... .....House.....Block.....Entrance.....Floor.....Apartment.....Postal Code.....  <u>Address (actual):</u> City.....Area.....Street..... .....House.....Block.....Entrance.....Floor.....Apartment.....  Postal Address.....  Tel.(home).....cell.....  E-Mail.....				<u>Address (registration):</u> City.....Area.....Street..... .....House.....Block.....Entrance.....Floor.....Apartment.....Postal Code.....  <u>Address (actual):</u> City.....Area.....Street..... .....House.....Block.....Entrance.....Floor.....Apartment.....  Postal Address.....  Tel.(home).....cell.....  E-Mail.....			
Property Ownership Status: <input type="checkbox"/> Owned <input type="checkbox"/> Rented Term.....(years)				Property Ownership Status: <input type="checkbox"/> Owned <input type="checkbox"/> Rented Term.....(years)			
<input type="checkbox"/> Passport <input type="checkbox"/> ID Seria.....#..... Issued By..... When.....				<input type="checkbox"/> Passport <input type="checkbox"/> ID Seria.....#..... Issued By..... When.....			
Date of Birth	Date of Birth	Date of Birth	Date of Birth	Date of Birth	Date of Birth	Date of Birth	Date of Birth



Civil Status: <input type="checkbox"/> Married <input type="checkbox"/> Divorced <input type="checkbox"/> Single <input type="checkbox"/> Widowed	Civil Status: <input type="checkbox"/> Married <input type="checkbox"/> Divorced <input type="checkbox"/> Single <input type="checkbox"/> Widowed
Dependants (children, other people who depend on you financially) Name.....Age.....Relation..... Name.....Age.....Relation..... Name.....Age.....Relation..... Please list all members of your household with regular income: Name.....Age.....Occupation.....Income..... Name.....Age.....Occupation.....Income..... Name.....Age.....Occupation.....Income.....	Dependants (children, other people who depend on you financially) Name.....Age.....Relation..... Name.....Age.....Relation..... Name.....Age.....Relation..... Please list all members of your household with regular income: Name.....Age.....Occupation.....Income..... Name.....Age.....Occupation.....Income..... Name.....Age.....Occupation.....Income.....
Your Education <input type="checkbox"/> High School <input type="checkbox"/> Bachelor <input type="checkbox"/> Master Degree <input type="checkbox"/> PhD <input type="checkbox"/> Dr	Your Education <input type="checkbox"/> High School <input type="checkbox"/> Bachelor <input type="checkbox"/> Master Degree <input type="checkbox"/> PhD <input type="checkbox"/> Dr
For the past 5 years I changed the place of employment .....# of times	For the past 5 years I changed the place of employment .....# of times

**IV. Professional activity data**

BORROWER		CO-BORROWER	
Place of employment (company name) ..... ..... ..... .....	<input type="checkbox"/> I am self-employed	Place of employment..... of ..... .....	<input type="checkbox"/> I am self-employed
Employer's address: City.....Street..... ... House. .... Entrance.....Office..... Office Tel.(including area code).....		Employer's address: City.....Street..... ... House. .... Entrance.....Office..... Office Tel.(including area code).....	
Profession/Occupation..... ..... Position.....		Profession/Occupation..... ..... Position.....	

...	...
Beginning Date (with this employer).....	Beginning Date (with this employer).....
Number of years in this profession.....	Number of years in this profession.....

Name/Position of your immediate Supervisor .....	Name/Position of your immediate Supervisor .....
Type of Contract/ Labor Agreement <input type="checkbox"/> Full-time <input type="checkbox"/> Part-time <input type="checkbox"/> Probabtion Period <input type="checkbox"/> Indefinite <input type="checkbox"/> Definite (please indicate the expiry date).....	Type of Contract/ Labor Agreement <input type="checkbox"/> Full-time <input type="checkbox"/> Part-time <input type="checkbox"/> Probabtion Period <input type="checkbox"/> Indefinite <input type="checkbox"/> Definite (please indicate the expiry date).....
Job History (starting from the latest job) <b>1.Company/organization</b> ..... ..... <input type="checkbox"/> was my own company (self-employed) Address & phone..... ..... Profession/Occupation..... Position..... Name / Position of your immediate Supervisor ..... Period of employment: from .....until..... Average monthly income..... <b>2.Company/organization</b> ..... ..... <input type="checkbox"/> was my own company (self-employed) Address & phone..... ..... Profession/Occupation..... Position..... Name / Position of your immediate Supervisor ..... Period of employment: from .....until..... Average monthly income.....	Job History (starting from the latest job) <b>1.Company/organization</b> ..... ..... <input type="checkbox"/> was my own company (self-employed) Address & phone..... ..... Profession/Occupation..... Position..... Name / Position of your immediate Supervisor ..... Period of employment: from .....until..... Average monthly income..... <b>2.Company/organization</b> ..... ..... <input type="checkbox"/> was my own company (self-employed) Address & phone..... ..... Profession/Occupation..... Position..... Name / Position of your immediate Supervisor ..... Period of employment: from .....until..... Average monthly income.....

\* If the Borrower and Co-Borrower are self-employed and jointly own at least 25% of the company they work for, then the activity and financial performance of this company will be analysed to prove the submitted data (e.g. amount of dividends, etc). Borrower and CO-Borrower will have to provide additional income proof documentation (e.g Annual and latest Quarterly Balance Sheet, Income Statement and other documentation as requested by the Loan Officer).

BORROWER		CO-BORROWER	
<i>Monthly Income (last month)</i>	EGP	<i>Monthly Income (last month)</i>	EGP
Salary		Salary	
Overtime		Overtime	
Bonuses		Bonuses	
Commission		Commission	
Interest Income (on deposit or a loan)		Interest Income (on deposit or a loan)	
Rent		Rent	
Dividends		Dividends	

Other Income*								Other Income*															
A. TOTAL INCOME								A. TOTAL INCOME															
MONTHLY INCOME FOR THE PAST 12 MONTHS (PLEASE INDICATE CURRENCY)																							
Jan		Feb		Mar		Apr		May		June		July		Aug		Sept		Oct		Nov		Dec	
<b>Borrower</b>																							
<b>Co-Borrower</b>																							

\*Description of other income

<b>Borrower</b>				<b>Co-Borrower</b>			
Description/ source		EGP		Description/ source		EGP	
MONTHLY HOUSEHOLD EXPENSES				Presently		After the loan	
				EGP		EGP	
Rent							
Loan Installments							
Other obligatory payments (e.g. personal loans from family and friends)							
Life Insurance premium**							

Property Insurance**		
Other Insurance**		
Property Taxes**		
Income Tax**		
Alimony (and other financial aid for dependants)		
Education		
Other expenses:		
- food		
- clothing		
- natural gas		
- water, hot water		
- fee for common area cleaning		
- electricity		
- telephone		
- mobile phone		
- cable TV		
- other (e.g. subscription, etc.)		
- car (gas, repair, maintenance, etc.)		
- entertainment/ recreation		
- other expenses		
Savings		

C. TOTAL AMOUNT OF MONTHLY EXPENSES		
NET INCOME (A + B - C)		

\* Please use single currency for income and expenses.

\*\*All annual payments (e.g. insurance premium), please prorate on a monthly basis (divide the premium amount to 12 and fill in 1/12 of the amount)

If Borrower and Co-Borrower are not members of the same household then the above table should be filled in by the Co-Borrower separately.

<i>All purchases (over 2,000 EGP) made by you and your household members for the past 12 months</i>				
Borrower		Co-Borrower		
1.				
2.				
3.				
<b>VI. ASSETS AND LIABILITIES</b>				
<i>This Section should be filled in by the Borrower and Co-Borrower jointly if they are the members of the same household (e.g. spouses). In cases of separate households the table should be filled in by both, Borrower and Co-Borrower, separately.</i>				
Who Filled In the Table <input type="checkbox"/> Borrower <input type="checkbox"/> Co-Borrower <input type="checkbox"/> Jointly <input type="checkbox"/> Separately				
<b>ASSETS</b>		<b>LIABILITIES</b>		
Description	Market Value, EGP	Description	Monthly payment, EGP and number of months until full repayment	Outstanding loan balance to be paid, EGP
Advance payment (down payment)		Please list all creditors with addresses, accts # (for formal loans) including loans, leasing, alimonies/child support, mortgage, and other loans or personal loans		
Deposit (bank, address, acc #):		Creditor/ Address	# of months	
1.		Contract Date		
		Contract Number		

		Creditor / Address Contract Date Contract Number	# of months	
Cash		Creditor / Address Contract Date Contract Number	# of months	
T-Bills and securities (please indicate the issuer and number)		Creditor / Address Contract Date Contract Number	# of months	
Life Insurance - Value of Policy - Invested Amount		Creditor / Address Contract Date Contract Number	# of months	
<b>TOTAL LIQUID ASSETS</b>				
*Real Estate (market value)		This Section is to be filled only if you intend to apply for other loans <i>Creditor / Address</i>	EGP ~Date:	
Car (brand, model, year, # km)				
Stocks (% of shares)		<i>Creditor / Address</i>	EGP ~Date:	
Other assets (e.g., gold, gems, antiques)		TOTAL MONTHLY DEBT PAYMENT (all obligations)	EGP	
		<b>B. TOTAL LIABILITIES</b>		
<b>ASSETS – LIABILITIES (A-B) =</b>		EGP		

\*Real Estate



Address (please indicate if this property is either listed for sale or is rented out)	Type	Market Value, EGP	Mortgage (loans against this property and a monthly installment)	Total rental income	Insurance, taxes and other related expenses	Total Net Rental Income
1.	<input type="checkbox"/> house <input type="checkbox"/> flat					
2.	<input type="checkbox"/> house <input type="checkbox"/> flat					
<b>TOTAL:</b>						

*Please list all loans which you have taken in the past and paid back (good credit history is a positive factor).*

Amount & Currency	Creditor (bank, financial institution, microfinance organization, individual, etc.)	Contract #	Interest Rate (per month, per year)	Loan Term	Monthly payment
<b><u>BORROWER</u></b>					
1.					
2.					
<b><u>CO-BORROWER</u></b>					
1.					
2.					

**VII. DECLARATION**

*If you answer 'yes' to any of the questions below please explain in details.*

	<b>Borrower</b>		<b>Co-Borrower</b>	
	<b>Yes</b>	<b>No</b>	<b>Yes</b>	<b>No</b>
A. Is there any current litigation against you?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B. Have you ever defaulted on a loan (you were not able to pay back the loan on a due date)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C. Have there been cases for the past 10 years when your assets/property have been confiscated by the creditors for unpaid debts?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
D. Are you a part of the current litigation (e.g. as a witness)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
E. Do you presently have any outstanding past due loans and other liabilities?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
F. Are you liable by law for providing financial aid /alimony/child support?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
G. Have you applied (or received) a loan for a downpayment?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
H. Are you a guarantor or a co-borrower on another loan?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

..... ..... .....
-------------------------

*Please answer the following questions:*

	Borrower		Co-Borrower	
	Yes	No	Yes	No
I. Are you a citizen of Egypt?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
J. Are you a citizen of another country with a residence permit in Egypt?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
K. Do you intend to use the property to be financed as your primary residence (for acquisition loans)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
L. Have you bought (or invested) into the Real Estate property for the past 3 years? If Yes: (1) Type of Property – primary residence, secondary residence, investment property? (2) Your Ownership Status – You are the only owner, you own it jointly with a spouse, you own it jointly with the third party?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	_____	_____	_____	_____

**VIII. OTHER CONDITIONS**

By signing the Loan Application, the Borrower and Co-Borrower agree to the following: (1) Loan requested hereby will be secured with the first rank mortgage on the property financed (furtheron Property); (2) the Borrower and Co-Borrower are not involved into any illegal or unsanctioned activity; (3) information provided herein is for the purpose of receiving a loan for the purpose declared in the Application; (4) loan purpose will correspond to the purpose declared in the Loan Application; (5) Creditor, its authorised agents or legal successors have a right to check and verify and information provided in the Application either personally or through its authorized agents; the copies of all documents provided along with the Loan Application will remain in the possession of the Creditor regardless whether the loan was approved or declined; (6) all information provided herein should be updated when changes occur; (7) for cases when the Loan Application has been approved, but the loan has not been withdrawn, the Creditor, its authorised agents or legal success have a right to compensate the costs incurred for documents processing; (8) the loan could be assigned to the third party without a prior approval of the Borrower after the advance notification; (9) Creditor, its authorized agents or legal successors and other parties possessing rights in relation to the Property, do not provide any guarantees regarding the Property, nor its condition or value.

By signing, the Borrower and Co-Borrower declare that all information provided in the Application is true and any misleading or false information would create a reason for terminating a Loan Application and will be penalised.

By signing, the Borrower and Co-Borrower understand and accept that the Creditor has a right to decline the Application at any moment before the Loan Agreement is signed, without providing the reasons for rejection.

**Borrower’s Signature** \_\_\_\_\_ **Date** \_\_\_\_\_

**Co-Borrower’s Signature** \_\_\_\_\_ **Date** \_\_\_\_\_

**This Section if for Internal Use only (to be filled in by the Loan Officer)**

*Remarks of the Loan Officer:*

- 1. Combined Household Monthly Income = .....EGP
- 2. Maximum monthly loan payment = ..... EGP(.....%)

Notes:

*Loan Officer, .....*