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# MORTGAGE FINANCE TRAINING AND CAPACITY BUILDING

EGYPT FINANCIAL SERVICES PROJECT  
TECHNICAL REPORT #77

**February 22, 2007**

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Task: Task 1: Mortgage team

KRA: 1.10 Primary Market for Long-term Housing  
Finance Strengthened

Activity: 1.10.1 Capacity building for banks to extend  
housing finance loans through mortgages

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## **ACRONYMS**

EBI	Egyptian Banking Institute
EFS	Egypt Financial Services
EHFC	Egyptian Housing Finance Company
EMA	Egyptian Mortgage Association
MFA	Mortgage Finance Authority
MFC	Mortgage Finance Company
PBS	Personal Balance Sheet
SBI	ShoreBank International
SOW	Scope of Work
TMC	Taamir Mortgage Company
TOT	Training of Trainers

## **Executive Summary**

This report has been prepared in support of USAID's Egypt Financial Services (EFS) Project Task 1: to establish the supporting framework for the mortgage finance industry. The Scope of Work is entitled: Mortgage Finance Training & Capacity Building Program Mortgage Lending Refining and Delivery: Mortgage Finance Training and Capacity Building.

Per the requirements of the Scope of Work (SOW), ShoreBank International (SBI) fielded a two-person team of trainer-practitioners to Cairo from January 20<sup>th</sup> - February 16<sup>th</sup>, 2007 with the primary objective of course refinement, mentoring local trainers, and delivery of practitioner-oriented training to a group of Egyptian practitioners from banks and mortgage finance institutions, as well as employees from the Mortgage Finance Authority (MFA). The team conducted course preparation, 52 classroom hours of training delivery, and incorporated revisions and additional localization feedback from the dry run delivery for a combined curriculum of Modules A and B; Loan Origination and Underwriting, and Servicing and Risk Management. EFS and SBI provided all logistics, materials preparation, marketing and promotion, participant outreach and selection, and training support.

The courses were based on previous training material developed in 2006 and modified to reflect the specific technical needs of the Egyptian market and weaknesses identified during previous delivery. Trainers' materials were also upgraded to meet the needs of local trainers delivering the material. Module A (Origination and Underwriting) required a complete revamp based upon feedback from the previous delivery, both respective to content as well as to decrease the delivery time from 6 (six) to 4 (four) days. Module B (Servicing and Risk Management) required the input of additional trainer notes and to reduce the delivery time from 5 (five) to 4 (four) days.

The SBI course was designed from the perspective of training loan officers and credit managers seeking to implement primary market housing finance for residential home-owner/borrowers in Egypt's emerging mortgage market, and incorporated a heavy emphasis on hands-on exercises and as much "experiential" learning as feasible within the constraints of a classroom setting. A dry run was combined with a training of trainers program; with participation from identified trainers working in the banking and mortgage finance company sectors, as well as the MFA. This ensured that both the material was geared towards the target audience as well as appropriate for local trainers.

The dry run/training of trainers (TOT) program was delivered from January 28<sup>th</sup> – January 31<sup>st</sup> and was attended by 6 external participants and 3 EFS participants. Module A, the combined Loan Origination and Underwriting course, was delivered from February 4<sup>th</sup> to February 8<sup>th</sup> and was attended by 18 participants. Module B, the combined Loan Servicing and Risk Management course, was delivered between February 11<sup>th</sup> and February 14<sup>th</sup> and was attended by 16 participants. Short, daily feedback, as well as a more comprehensive end of course feedback, for the TOT, as well as the courses, indicated a very positive response to the course and TOT by the participants. Specific areas of strength were the relevance of the activities to the course material, the effective use of joint trainers throughout the training, interaction between students and trainers, and the specific skills emphasized by the training which accurately reflected the upgrading needs of the participants. During the courses, student feedback also provided positive comments about the skill and quality of local trainers.

Deliverables from this SOW include the following:

1. Revamped, redesigned, and improved training-ready version of courses I & II as consolidated into one module (Module A) containing complete PowerPoint presentations, teachers notes, and students manuals, activities, and case studies;
2. Report on local trainers' performance, report on actual training delivery, and recommendations for future roll-out of the full curricula and utilization of local trainers.

## **II. Introduction**

The central objective of USAID's Egypt Financial Services (EFS) Project is to build the market infrastructure required for mortgage finance. Task 1 of this objective calls for establishing the supporting framework for the mortgage finance industry. Under this task heading, SBI was engaged by Chemonics International to develop mortgage finance training and capacity building resources.

Between July 20<sup>th</sup> and February 16<sup>th</sup>, 2007, SBI Subject Matter Experts, Garth Bedford and Donna Nails, along with EFS Training and Task 1 staff worked in completing Phase V activities.

This report describes the activities in detail regarding preparation and delivery of the combined Modules A and B courses, as well as the dry run/TOT and sets forth recommendations as to the development of the local training skill set.

### **III. Summary of Activity**

#### **A. Delivery Preparation**

In preparing for the course delivery, SBI has followed the specifications requested by EFS which was composed of five sections:

- 1) Course/module outline
- 2) PowerPoint presentation
- 3) Activities
- 4) Resource materials
- 5) Trainer notes

The training utilized all of the above five elements and was effectively delivered to participants in a classroom setting.

Lessons learned from the initial delivery of courses I - IV lead to a more effective preparation for the training and ultimately a successful delivery. The dry run, along with local EFS staff participation, insured that all material and activities were as relevant to the Egyptian environment as possible. Due to this approach, the course material, as presented, needed very little adjustment due to participant feedback.

During preparation, the training team conducted the following activities:

- Participated in meetings with EFS Task I technical staff and training staff involved in course preparation and development.
- Developed course and module objectives to accurately reflect the needs of the market.
- Redesigned course content to match local needs and logically lead to the successful knowledge transfer leading to the achievement of objectives.
- Altered existing PowerPoint content and presentation to reflect the new objectives and course materials.
- Development of supplemental visual aids (flip charts, etc.) supporting the PowerPoint slides and lecture material to be used as reference material throughout the course.
- Altered the Student Manual to be an effective resource for detailed information on material covered in the training.
- Development of activities (Icebreaker, Case Studies, Role Plays, and Debates, etc.) to insure participants practically apply learned tools.
- Held a 4 day dry run with participants from EFS and management of participating banks and Mortgage Finance Companies (MFCs), as well as the MFA, to receive and incorporate feedback on usefulness of activities and areas needing more emphasis.
- Created daily feedback quizzes and final exam for participants.

#### **B. Training of Trainers**

Training of trainers took place concurrently with the dry run, effectively using the participants to also provide feedback on the material. The trainers were identified by EFS staff due to their knowledge of the market and assessed ability to deliver the information. Both Modules A and B were presented during these sessions.

##### **1. Locale and Logistics**



The course was delivered over 4 days in the conference room of the EFS offices. Due to commitments, not all participants were able to attend the full sessions, but were all able to focus on assigned modules.

## **2. Participants**

Annex I details the list of participants, representing 3 mortgage finance companies, El Taamir Mortgage Company, Egyptian Housing Finance Company (EHFC), and Tamweel Mortgage Finance Company; 2 banks, National Société Générale Bank and Al Watany Bank of Egypt, and the Mortgage Finance Authority.

Three representatives from EFS were present during the entire program to organize logistics, incorporate feedback into the material and help assess the trainers and offer feedback to upgrade their skills. As needed, the EFS staff also co-trained specific modules.

## **3. Content**

The session began with an overview of training skills presented by an EFS training specialist. The sessions were then divided into a dry run presented by SBI experts during one day, followed by a presentation of the same material by the local trainers the following day.

During the SBI delivery, discussions were held with the participants as to the appropriateness of the material, as well as the effectiveness of the training notes to capture the information the trainers were delivering. Additions were encapsulated by EFS and SBI staff and incorporated into the material.

Local trainers co-delivered all modules, with each training pair assigned specific sections to deliver.

## **4. Feedback**

On the final day, the participants were asked to complete a feedback form, evaluating the session. While the comments were quite positive it was also clear that the logistics of the session lessened the effectiveness of the training of trainers portion of the week. Specifically, the issue was related to timing and completing a dry run and a TOT in four days. The participants felt that incorporating the TOT into the dry run lead to some confusion since materials were being modified one day and being presented the next. While the reasons behind the four day schedule were clear, insofar as all participants had work commitments making it difficult to clear two weeks, having a complete dry run to finalize the material before the TOT would have made the session even more successful.

Of the 6 trainers attending the dry run/training of trainers sessions, SBI and EFS staff jointly identified four presenters who were then able to co-deliver sections of the training the following weeks.

## **C. Training Delivery**

The Loan Origination, Underwriting, Servicing and Risk Management courses developed and presented by ShoreBank International contain the theoretical and practical tools needed for the understanding and implementation of effective Housing Finance activities in Egyptian Housing Finance Lending Institutions. The training was co-delivered either with both SBI experts or one SBI and one local trainer.

### **1. Locale and Logistics**

The course was delivered over 8 days, with the net training time of 6½ hours per day. The training venue was the Egyptian Banking Institute (EBI). The room during the initial week was somewhat small but, for the second week, was upgraded to a larger, more suitable room, appropriate for 20 participants. Both rooms were properly equipped.

Participants were grouped in teams of four, rotated on a daily basis during the training to facilitate a participatory training approach. Discrepancies in language and knowledge capacity were overcome through insuring one person of elevated capacity sat with those of a lower level.

## **2. Participants**

Annex II presents the list of participants for the course, representing 3 banks (HSBC, Commercial International Bank and National Bank of Abu Dhabi), 2 mortgage finance companies (El Taamir Mortgage Company, Egyptian Housing Finance Company), the Egyptian Mortgage Refinance Company, and the Mortgage Finance Authority. These participants had a wide range of skills and lending experience. The course had a group of 18 participants for week one and 16 for week two, with a large majority attending both modules, an effective size to insure efficient transfer of the information.

Four representatives from EFS were also present for the duration to organize logistics, take notes, gather feedback, and provide input and translation where needed.

## **3. Content**

The sessions were divided into 2 primary modules, 4 courses, and 23 supporting modules designed to logically lead the participants from loan origination through underwriting, servicing, and risk management. Specific course outline and objectives can be referred to in Annex III. The content endeavored to integrate international best practices with actual Egyptian practices in Housing Finance, although, being a nascent industry, local equivalent practices did not exist in all cases. In such cases, more emphasis was placed on why and how such practices were used in other environments and the benefits of implementing such practices in Egypt. Annexed to the student resource manual a sampling of forms and procedures were made available, in all cases where it was appropriate, these were also amended to include the unique needs of Egyptian financial institutions. Throughout the course, concepts were introduced and explained; examples were then provided to illustrate how the concepts were successfully applied in other institutions (or, conversely, the consequences of not applying them). For the more important concepts, exercises or activities were then structured to reinforce the participants' knowledge and allow practical application. Where concepts were threaded throughout the course, visual aids were created to post during the training, allowing the participants to refer to them at any time. The course was highly participatory allowing the participants to add valuable content and providing good indicators to the trainers about the level of comprehension.

## **4. Feedback**

Class participants were asked to complete a daily comprehension quiz based on the material learned that day. This was not graded, but used to assess on a class and individual level if the concepts were being properly transferred to the participants. Areas of weakness were then reviewed the following morning during the opening session and improvements were made to the training notes to insure these concepts are better explained in future trainings. In addition to the daily quiz, participants also filled out a daily feedback form designed to indicate areas of strength and weakness

in the daily sessions. This allowed the trainers to constantly improve the quality of the training and replicate what methodology worked. During the course of this training, this was particularly useful to underscore the appropriateness of the methodology that was being used and information that was being presented.

On the final day of each primary module, participants were given a 30-40 question final exam that, along with participation points, would determine their final grade. This exam was created to test if the participants' knowledge met the individual objectives of the course modules. The participants were also given, on the final day of each module, a far more comprehensive evaluation to complete.

Overall, the feedback indicated the training, both relating to methodology as well as content, was very well received. No specific areas for improvement were commonly indicated, some participants felt the training was too slow, others too fast; some felt there were too many activities, other not enough. When this training is able to be localized and taught in Arabic, it will be easier to gather participants with more similar skill sets and adjust the pace to their needs, which will mitigate these issues.

Feedback regarding the local trainers was positive with participants pointing out the effectiveness of the Egyptian examples during the course.

#### **IV. Recommendations**

This training as delivered has proven successful in Egypt and should be replicated and further localized. Key elements to this happening are:

1. Ownership/sustainability
  - a. One institution needs to take ownership of the training material and continually update and disseminate the information. It would appear that EBI would be the most appropriate institution to do this, but it must be taken on with the intention of making it a part of an ongoing mortgage training program.
    - i. EFS is targeting to hand over the courses to the Egyptian Mortgage Association (EMA) as a funding source to be the owner of these courses and to take on the responsibility of making it an ongoing mortgage training program in the future.
  - b. While an initial cadre of three trainers has been identified and have already co-delivered the material with international experts, it will be necessary for them to deliver now the entire course without foreign co-trainers, ideally, though, with the support of subject matter experts to provide feedback and upgrade their knowledge.
2. Localization
  - a. While much effort was made to use local examples where applicable, the relative youth of the mortgage market, as well as the current divergence between the banks approach and the MFCs approach towards housing finance, made this difficult. As the market matures, there will be a need to continually replace international examples with local examples.
  - b. In order to fully benefit from this material, the sooner it can be delivered in Arabic the sooner it will be able to reach the larger target audience.
3. Assessment
  - a. Longer term impact should be measured to indicate what tools participants have implemented and/or continue to use as a result of the training.

## **V. Next Step**

As suggested in the recommendations, local trainers need to deliver the material in the near future to codify their knowledge and skills. This would ideally be divided into two parts, a dry run and actual delivery under the observation of subject experts and training experts. This should then be followed up by translation of the material into Arabic and delivery to a wider range of participants.

- Activity 1: Dry run
  - The lessons learned during the initial training of trainers and actual delivery will be combined into another dry run in front of EFS staff delivered solely by the three identified trainers. This should:
    - Make trainers comfortable with all modules
    - Familiarize the trainers with all activities
    - Introduce trainers to the creation of standardized visual aids and other supporting material
- Activity 2: Training delivery
  - Actual delivery of all modules to appropriate students
  - Subject matter and training experts to provide feedback
- Activity 3: Localization
  - Translation of all material into Arabic
  - Delivery by trainers in Arabic

## VI. ANNEXES

### A. ANNEX I List of Local Trainers

Name	Title	Institution
Wafaa El Dars	Consultant to the Chairman Internal Affairs and Compliance	Mortgage Finance Authority (MFA)
Hala Bassiouny	Managing Director	Egyptian Housing Finance Company (EHFC)
Salwa Naguib	Managing Director	Tamweel Mortgage Company
Nagui Fahmy	General Manager, Commercial	El Taamir Mortgage Company (TMC)
Hany Zaki	Credit Approval Assistant Manager	National Société Générale Bank
Dina Marie	Manager of Technical Bureau of the Managing Director	Al Watany Bank of Egypt
Amal Ezz Eldin	Senior Financial Advisor	Egypt Financial Services Project
Aser F. Obeid	Loan Analyst	Egypt Financial Services Project

## B. ANNEX II List of Participants

<b>Loan Origination &amp; Underwriting</b>		
1	Mohamed Sidky Yosseff	Taamir Mortgage Company
2	Rania Ezzat Rashed Abdel Hamied	Taamir Mortgage Company
3	Shaimaa Hussien Beshier Seleem	Taamir Mortgage Company
4	Hany Salah EIDin Ahmed Fouda	Taamir Mortgage Company
5	Ahmed Mahmoud Ahmed Sedik	Taamir Mortgage Company
6	Tamer Sherif Ghannam	Egyptian Housing Finance Company
7	Karim Adel Mostafa Kamal	Egyptian Housing Finance Company
8	Iman Tawfiq Ismail	Egyptian Mortgage Refinance Company
9	Mohamed Salah El Din Mohamed Khairy	Commercial International Bank
10	Wael Mohamed Abdel Hafez Ali	National Bank of Abu Dhabi
11	Noha Ahmed Hassan Saleh	HSBC
12	Sondos Khater	HSBC
13	Khaled Mohamed Osman	HSBC
14	Gamal Nasr El Din Fayaad	HSBC
15	Ahmed Mahmoud Moubarak	HSBC
16	Dina Ismail Mahmoud Mohamed	MFA
17	Abdel Rahman Mohamed Ahmed Rady	MFA
18	Yehia Elsayed Wahba Elzonzoly	MFA
<b>Loan Servicing and Risk Management</b>		
1	Shady	Taamir Mortgage Company
2	Mahmoud Mourad Mahmoud Mourad	Taamir Mortgage Company
3	Tamer Sherif Ghannam	Egyptian Housing Finance Company
4	Karim Adel Mostafa Kamal	Egyptian Housing Finance Company
5	Iman Tawfik Ismail	Egyptian Mortgage Refinance Company
6	Abd El Rady Abdel Meguid Ali	Commercial International Bank
7	Haytham Mohamed Safaa EIDin El Rayes	Commercial International Bank
8	Wael Mohamed Abdel Hafez Ali	National Bank of Abu Dhabi
9	Noha Ahmed Hassan Saleh	HSBC
10	Sondos Khater	HSBC
11	Khaled Mohamed Osman	HSBC
12	Gamal Nasr El Din Fayaad	HSBC
13	Ahmed Mahmoud Moubarak	HSBC
14	Dina Ismail Mahmoud Mohamed	MFA
15	Abdel Rahman Mohamed Ahmed Rady	MFA
16	Yehia Elsayed Wahba Elzonzoly	MFA

## C. ANNEX III Course Outline

### Loan Origination and Underwriting Course Outline and Objectives

#### 1. Introductions, Ice-Breaker, and Course Overview

*Objectives:*

- *Discuss why financial institutions engage in housing finance.*

#### 2. Overview of Housing Finance Lending in Egypt

- a. Compare and contrast housing finance with consumer credit.
- b. Overview of Egyptian and international products.
- c. Overview of all participants in Egyptian housing market.

*Objectives:*

- *Explain the difference between consumer credit and housing finance lending with specific reference to length of loan term, cost of funds, and collateralization.*
- *Discuss the current housing finance product offered in Egypt and internationally.*
- *Understand the different players involved in the housing market and their relationship to the loan cycle.*

#### 3. Origination, Underwriting, and Loan Servicing Overview

- a. Chart the loan lifecycle from loan origination through payoff or liquidation.
- b. Different structure of Housing Finance Department at various financial institutions.

*Objectives:*

- *Illustrate the interrelationship between loan origination, underwriting, and servicing in terms of how good underwriting and origination lead to good servicing, and where each activity takes place during the life cycle of the loan.*
- *Detail how a loan moves from function to function throughout its lifecycle.*
- *Discuss who will underwrite the loan and different organizational structures for an underwriting department.*

#### 4. Introduction to Loan Origination

- a. Define the origination process.
- b. Role of the loan officer in the origination process.
- c. Importance of a structures origination process.
- d. Origination process as risk management tool.

*Objectives:*

- *Explain the importance of an efficient and effective housing finance loan origination process.*
- *Define role of loan officer in the origination process.*
- *Explain how the how the origination process can be an effective risk management tool.*

#### 5. Marketing

- a. What is marketing and why should housing finance lenders market?
- b. Marketing Long Term vs. Short Term loans.
- c. Segmenting target markets.
- d. Market outreach.
- e. Developing an Individual Marketing Plan.
  - i) Target Market
  - ii) Existing vs. Current Clients

iii) Pipeline

**Objectives:**

- *Provide overview of the marketing process in housing finance lending.*
- *Discuss the difference between a financial institution's and individual's marketing plans.*
- *Explain marketing process for housing finance lenders vs. other types of lending (commercial/consumer).*
- *Understand how to develop individual marketing plans.*
- *Know how to manage marketing goals with pipeline reports.*

**6. Loan Application Process**

- a. Importance of a fully completed application.
  - i) Secondary markets
  - ii) IT systems
- b. Prescreening.
  - i) Debt to Income
  - ii) Loan to Value
  - iii) Character Evaluations
- c. Analyze an application.
- d. Gathering/verifying data and information.
  - i) Site visit
- e. File maintenance and preparation for underwriting.

**Objectives:**

- *Discuss why it is important to have a fully completed application.*
- *Understand the reason for all required information in an application.*
- *Discuss the importance of screening clients.*
- *Introduce the underwriting criteria: Debt to Income, Loan to Value, and Character Evaluations.*
- *Provide overview of how to gather and verify data and information by using formal and informal ways.*
- *Explain the importance of file maintenance during loan Application process*

**7. Introduction to Underwriting**

- a. Steps of Underwriting.
- b. Why do we underwrite?
- c. Define Eligibility of a Borrower.
  - i) General eligibility
  - ii) 4 major C's (capacity, collateral, credibility, conditions)

**Objectives:**

- *Discuss what steps are, including in the underwriting process.*
- *Agree on the reasons needed for complete and good underwriting.*
- *Introduce the idea of eligibility and four C's of underwriting.*

**8. Underwriting Capacity**

- a. More detail on Debt to Income ratios.
- b. Understanding and verification of acceptable sources of income.
  - i) Formal income
  - ii) Informal income
- c. Calculate total amount of debt.
  - i) Debt associated with housing - housing finance payment, taxes, insurance
  - ii) Non-housing debt
- d. Calculate net worth.
  - i) Personal balance sheet (PBS)



- e. Setting guidelines and calculating debt to income ratios.
  - i) Housing debt to income
  - ii) Total debt to income

**Objectives:**

- *Know the various tools to analyze a borrower's Capacity to Pay.*
- *Provide breakout of debt to income ratio.*
- *Discuss sources of acceptable income (formal and informal) and how to verify.*
- *Discuss how to calculate monthly debt for both housing finance and non housing debt (front end /back end ratios).*
- *Describe debt to income guidelines.*

**9. Underwriting Collateral**

- a. Define collateral and the relationship to loan to value.
- b. Three methods of property valuation used in appraisals
  - i) Cost
  - ii) Comparable sales
  - iii) Capitalization on income

**Objectives:**

- *Explain the collateral relationship to the loan to value ratio*
- *Explain loan to value ratio and its impact on loan repayment.*
- *Discuss the three methods of valuation of properties in appraisals.*

**10. Underwriting Credibility**

- a. What does credibility mean and how do you verify it?
  - i) Egypt
  - ii) Other Countries – U.S., Azerbaijan, Morocco
- b. Using Credit Bureaus
  - i) CBE
  - ii) Future in Egypt
- c. Investigation Department
  - i) Site visit
  - ii) References
  - iii) Non-traditional credit sources

**Objectives:**

- *Discuss how credibility is measured in different markets and how it should be measured in Egypt.*
- *Understand how credit bureaus can be used in the underwriting process.*
- *Describe what the investigation department will do to provide information regarding the credibility of a borrower.*

**11. Conditions and Loan Approval**

- a. Required and additional conditions
- b. Approval Structures: by committee or person.
  - i) Pros and cons of each approval structure
- c. Presentation to committee
- d. Loan approval activity
  - i) Insurance
  - ii) Guarantee
  - iii) Title
- e. Other conditions

**Objectives:**

- *List the required and other conditions for the housing finance loan.*

- *Discuss different approvals structures that are used by housing finance departments.*
- *Explain what needs to be presented and how a loan should be approved.*

## **12. Loan Administration, Documentation, and Closing**

- a. Pre and post closing checklist
- b. File coversheets
- c. Record maintenance and custody
- d. Sign off procedure
- e. Exception documentation/closing follow-up

### *Objectives:*

- *Explain the importance of an efficient and effective file maintenance and documentation system.*
- *Define housing finance losses, and identify where they can occur within poorly administered financial and file maintenance/documentation systems.*
- *Apply standard administrative tools to housing finance loan servicing.*
- *Understand the closing process*