FUNDING THE MORTGAGE FINANCE AUTHORITY: CHALLENGES AND POTENTIAL

THE ROLE OF THE GUARANTEE AND SUBSIDY FOR REAL ESTATE ACTIVITIES FUND

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Prepared by: Elaine Weis
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TABLE OF CONTENTS

Summary 1

SECTION I: A COMPARATIVE ANALYSIS OF FUNDING SCHEMES FOR MORTGAGE FINANCE REGULATORY AUTHORITIES 8

OVERVIEW 8

FUNDING MORTGAGE FINANCE REGULATORY AUTHORITIES 8
Regulatory Fees and Assessments 8
The Fee-Setting Process 8
Funding Financial Services Regulatory Authorities in Egypt 9

COUNTRY ANALYSIS 10
United States 11
Canada 14
United Kingdom 15
People's Republic of China 16
Mexico 18
India 20
Denmark 23
Norway 23
Applicability of International Models to the Egyptian Mortgage Finance Authority 24

SECTION II: ROLE OF THE GUARANTEE AND SUPPORT FUND (GSF) 25

THE EGYPTIAN HOUSING AND REAL ESTATE MARKET 25

CURRENT ISSUES OF MORTGAGE FINANCING AND REFINANCING 26

THE REAL ESTATE FINANCE GUARANTEE AND SUPPORT FUND (GSF) 27
Authority and Functions 27
Structure 27
GSF Mortgage Guarantee Program 27

MORTGAGE INSURANCE GUARANTEE PROGRAMS WORLDWIDE 28
Country Analysis 29
United States 30
Insured Mortgages 30

Private Mortgage Insurance (PMI) 31
Canada 31
Philippines 32
Hong Kong 36
Khazakhstan 38

LIQUIDITY (REFINANCING) FACILITY FOR EGYPT 38
The Role and Function of a Liquidity Facility 39

Recent Trends in Liquidity Facilities 39

Examples of Successful Liquidity Facilities 39
Federal Home Loan Banks – U.S. 39
National Housing Bank (NHB) – India 40
Canadian Mortgage and Housing Corporation Lending Program 41
Cagamas Berhad – Malaysia 42

FINANCIAL GUARANTEES AND SECURITIZATION 43
Possible Roles for the GSF 43
Financial Guarantee and Securitization Programs 44
Canadian Mortgage and Housing Corporation 44
National Housing Bank - India 44
Housing Guarantee Company - Philippines 45

SECTION III: POTENTIAL FUNDING SOURCES FOR THE MORTGAGE FINANCE AUTHORITY 47

AUTHORIZED FUNDING SOURCES 47

FEE REVENUE 47

ADDITIONAL SOURCES OF FEE REVENUE 48
Rationalize MFA Fee Structure 48
Expand Revenue Base 48
Charges for Services 49
Establish a Mortgage Finance Compensation Fund 50
Local and Foreign Loans and Grants 50
GSF as a Potential Funding Source for the MFA 54

ANNEX A 57
SURVEY OF REGULATORY FEES 57

ANNEX B 62
REPRESENTATIVE MORTGAGE INSURANCE PREMIUMS

Summary

I. A Comparative Analysis of Funding Schemes for Mortgage Finance Regulatory Authorities

- The regulation of mortgage finance institutions varies from country to country and even within the same country (e.g. the U.S.).

- In much of the world, there has been a trend towards centralizing financial institution regulation, including mortgage finance regulation, in an independent, autonomous and fiscally separate regulatory authority.

- Most mortgage finance regulatory authorities fund their operating budgets by assessing fees on the regulated entities. Frequently, the statute establishing the authority requires that it operate with a balanced budget and recover all costs through fees, assessments and charges for services provided.

- The fee-setting process is for the authority to prepare its annual budget for approval by the government and, once the budget is approved, set the annual fee schedule to fund that budget

- The concept of assessing regulated entities fees for services to fund the budgets of regulatory authorities is not foreign to Egypt. The Capital Market Authority (CMA), the financial lease authority (GAFI) and the Egyptian Insurance Supervisory Authority (EISA) fund their operations through fees. The Central Bank of Egypt assesses an annual supervision fee to fund its regulation and supervision activities.

- There is a broad range of fees across different regulatory authorities. In the U.S., licensing fees for mortgage companies and mortgage brokers range from LE 580 to LE 28,982. In Canada, licensing fees range from LE 4,700 to LE 35,250. In the U.K., licensing fees are even higher, ranging from LE 12,216 to LE 272,085. In Denmark and Norway, licensing fees are based on mortgage company assets. In the U.S., licensing fees for appraisers range from LE 580 to LE 3,536.

- Given the existing law governing the MFA, the most appropriate models for funding mechanisms are found in the United States, Canada, the U.K., Denmark and Norway. Denmark and Norway are the most similar to the financial market structure in Egypt because there are few mortgage companies in operation.

Summary of Representative Licensing Fees

Fees in LE

	U.S.	Canada	U.K.
Application processing fees			
Mortgage Company	580 - 8,695		
Mortgage Broker	580 – 8,695		
Appraiser	290 - 1,739		
Initial license fees			
Mortgage company	1,449 - 6,956	1,293 - 4,700	12,216 - 272,085
Mortgage Broker	1,159 - 6,956	353 - 4,700	12,216 - 272,085
Appraiser	869 – 3,188		
Each branch office	232 - 1,449	940	
Annual/Renewal Fees			
Mortgage Company *	788 - 28,982	1,293 - 35,250	Minimum of 2,221 Plus fee per no. of mortgages
Mortgage Broker *	1,159 - 28,982	353 - 4,700	Minimum of 1,110 Plus fee per 11,105 in annual income
Appraiser	580 - 3,536		

** Maximum fee may be higher depending on volume of loan origination.*

II. Role of the Guarantee and Support Fund (GSF)

- In the future, the Real Estate Guarantee and Support Fund (GSF), in conjunction with the Mortgage Finance Authority (MFA), could be used as the vehicle to develop a mortgage financing institution to support the primary mortgage market.

- The GSF has not been adequately funded to perform its functions. Most of its assets consist of properties contributed by the Ministry of Housing that must be sold off to generate cash. Unless the government is willing to make a greater financial commitment to the GSF and/or the GSF can be restructured to include revenue generating functions, the fund will not play a meaningful role in providing affordable housing finance.

- Even if the GSF were adequately funded, combining a subsidy program and a mortgage guarantee system in a single fund is a flawed concept. The GSF should be separated into two individual funds – the GSF subsidy fund and the GSF mortgage guarantee fund. Each fund should be independently funded and managed.

Mortgage Default Guarantee/Insurance

- The current GSF mortgage guarantee scheme is not mortgage insurance, but payment protection insurance, because it does not cover a lender's losses on default. The payment protection insurance that is offered is limited to low income borrowers, although guarantee fees are assessed only against borrowers with incomes above the regulatory limits. A new Presidential Decree establishing a true mortgage guarantee fund should be considered and the regulations governing the GSF guarantee overhauled.

- There is general agreement that a mortgage guarantee or insurance system is an essential element of a well-functioning mortgage market. Mortgage default insurance is widely used in both developed and developing economies.

- The creation of a true mortgage guarantee program in Egypt would enable mortgage lenders to lower the borrower's required investment, reduce mortgage interest rates and lengthen maturities, all of which make mortgage finance more affordable to a broad range of the population. However, given the preparatory work required to structure a sound mortgage guarantee system, the program could not become operational for two to three years.

- Mortgage insurance/guarantee premiums vary depending on the loan maturity, coverage ratio and loan-to-value ratio, reflecting different degrees of risk.

Range of Mortgage Insurance Premiums
For Representative Mortgage Insurance Programs

	Premium Paid at Settlement		Annual Premium		
	Premium % of Original Loan Amount	Amt per LE 10,000	Premium % of Original Loan Amount (Annual)	Annual Amt per LE 10,000	Amt Paid Monthly
100% Coverage					
Home Loans	1.00% to 2.00%	100 to 200			
Development Loans	2.00% to 2.75%	200 to 275			
50% Coverage [1]	2.17% to 3.79%	217 to 379	0.38% to 0.66%	38 to 66	3.16 to 5.50
40% Coverage [1]	1.96% to 3.26%	196 to 326	0.34% to 0.57%	34 to 57	2.83 to 4.75
35% Coverage [1]	1.86% to 3.00%	186 to 300	0.32% to 0.52%	32 to 52	2.66 to 4.33
30% Coverage [1]	1.75% to 2.73%	175 to 273	0.31% to 0.49%	31 to 49	2.58 to 4.08
25% Coverage [2]	0.70% to 2.88%	70 to 288	0.29% to 0.73%	29 to 73	2.41 to 6.08

[1] *Kazakhstan Mortgage Guarantee Fund (KMGF) only*
[2] *Hong Kong Mortgage Corporation (HKMC) annual premium program has a first year fee ranging from 0.24% (LE 55) to 1.26% (LE 126)*

- A financially viable and actuarially sound mortgage default insurance program based on international best practices can be implemented that covers a portion of the lender's loss on default. As shown in the table above, mortgage insurance/guarantee schemes in other countries set different premiums based on loan maturity, guarantee/insurance coverage ratio and loan-to-value ratio, reflecting different degrees of risk.

- If properly structured, the Real Estate Guarantee and Support Fund (GSF), in conjunction with the Mortgage Finance Authority (MFA), could be used as the vehicle to develop a mortgage financing institution to support the primary mortgage market.

Secondary Mortgage Market Activities

- The Egyptian government is in negotiations with the World Bank for a Mortgage Market Development Project. The World Bank and the Egyptian government may determine that the GSF is an appropriate candidate to house the liquidity facility, provided that the facility can be established as a separate legal entity under the GSF. Another option would be to amend the Real Estate Finance Law to authorize the MFA to administer the liquidity facility. The NHB in India would be the model for this alternative.

- Under the World Bank project guidelines, the liquidity facility would be organized as a profit-making corporate entity, with equity investment by Egyptian financial institutions. If it is decided that a new independent institution should be established, there may still be an opportunity for the GSF or the MFA to participate in the ownership and/or governance of the facility. Alternatively, the MFA could be the regulator of the facility.

- Successful liquidity facilities are in operation in:
  - United States – Federal Home Loan Bank System
  - Canada – Canadian Mortgage and Housing Corporation (CMHC) lending program
  - India – National Housing Bank (NHB) refinancing program
  - Malaysia – Cagamas Berhad

- The trend today is for liquidity facilities to diversify their secondary market operations to meet the changing needs of their financial institution participants.

- In the future, the GSF may be able to play a role in the development of the secondary mortgage market in Egypt by providing financial guarantees and/or facilitating securitization. Such programs have been successful in a number of countries: Canada, Mexico, India, Philippines and Hong Kong. If the Egyptian government believes that there is a possible future role for the GSF and/or the MFA in capital market financing, this topic should be discussed with both the World Bank and USAID.

- The business of issuing financial guarantees for mortgage-related securities has been profitable for well-managed institutions that impose stringent underwriting criteria. Virtually every financial guarantor will require that the underlying home mortgages carry mortgage default insurance.

- Financial guarantee and/or securitization programs are in operation in:

  - Canada – Canadian Mortgage and Housing Corporation (CMHC) securitization program
  - India – National Housing Bank (NHB) guarantee and securitization program
  - Philippines – Housing Guarantee Company (HGC) guarantee programs

- Another potential future program for the GSF would be to form another subsidiary that would purchase or lend against the security of mortgages from low and moderate income borrowers. For example, the loans originated by the National Bank of Egypt (NBE) under the new GSF subsidy program could be purchased by this new entity. The funds the NBE receives could then be re-lent for new low and moderate income mortgage loans.

III. Potential Funding Sources for the Mortgage Finance Authority

- As has been demonstrated in the analysis of funding sources for financial services regulatory authorities in other countries, when the Egyptian real estate finance market is more fully developed, the MFA can be funded primarily by fees and assessments paid by the entities it supervises, by fees for services it provides to financial institutions and other companies and organizations, by appropriations from the state budget and, possibly, by loans and grants from USAID, the World Bank and other multi-lateral and bilateral aid organizations.

- As has been the case with other new mortgage finance regulatory authorities (e.g. the FSA in the U.K.), the MFA can be expected to operate at a deficit for the first few years of operation until there has been sufficient growth in the number of regulated entities to provide an adequate revenue base. In the interim, appropriations from the state budget will be needed to fund the deficit. The deficit can be carried forward and built into the fee assessment base so that it can be recovered in future years.

- The Real Estate Finance Law specifies that revenue arising from penalties imposed by the MFA be allocated to the GSF, not the MFA. Consideration should be given to amending the Real Estate Finance Law to allow MFA to retain any penalty fees collected.

Fee Revenue

- The LE 5,000 or LE 10,000 licensing fees the MFA has established in the executive regulations (Article 29) for mortgage finance companies are consistent with international practices. However, the executive regulations do not provide for the assessment of fees for initial and renewal licensing/registration of mortgage brokers, appraisers, auditors, legal agents or appraiser education providers or annual fees for mortgage companies.

- The Board of Directors of the MFA should develop a fee schedule to ensure that all regulated entities are paying their fair share of the costs of regulation and supervision. MFA fees should be consistent with the fees charged by the other Egyptian financial services regulatory authorities and international best practices.

- New fee revenue can be generated from several sources:
  - The MFA intends to establish a standard appraiser examination, for which it can assess an examination fee.
  - A daily rate per person for on-site inspection of regulated institutions should be established.
  - The MFA should consider an annual levy for mortgage lenders, mortgage brokers and appraisers in addition to a minimum base fee based on the annual volume of transactions.
- In the near term, the MFA has limited options to expand its revenue base. The most productive initiative the Authority could undertake is to actively promote the licensed professions of appraisal and mortgage brokerage.
- The MFA could increase its fee revenue by extending the MFA's licensing authority to new classes of entities and persons engaged in real estate activities. This will require amendment of the Real Estate Finance Law. Politically it may be difficult to expand the MFA's authority to include additional groups, such as:
  - Real estate brokers and salespeople
  - As mortgage securitization develops, any loan servicing companies that may be established
  - Companies, primarily developers, who offer installment sales financing for real estate purchase.
  - Professional associations and SROs for regulated entities.
  - Individuals and companies that offer financial advice on real estate financing.
  - Escrow companies, if they are established
  - Secondary mortgage market institutions

Charges for Services

- Many regulatory authorities generate revenue by charging fees for the services they provide to regulated entities and the public. There are several areas where the MFA could charge for its services:
  - Publications, data services, training.
  - Fees to cover the costs of consumer information, education and protection services
  - Establish a mortgage finance compensation fund similar to the MISR for Clearing and Central Depository (MCSD) Settlement Guarantee Fund

Loans and Guarantees

- Several international agencies provide funding for housing finance activities. However, most of these programs fund institutions involved in the primary and secondary mortgage markets, not regulatory authorities. However, there could be opportunities to secure international funding for the Guarantee and Support Fund and any other secondary mortgage market institution that may be established through the USAID Development Credit Authority (DCA), the Overseas Private Investment Corporation (OPIC) or the International Finance Corporation (IFC).

GSF as a Potential Funding Source for the MFA

- There appear to be four basic options by which the MFA could benefit financially from expanded activities of the GSF.

    - MFA is given supervisory authority over GSF programs, receiving regulatory fee revenue
    - MFA provides management and technical services for a fee under a service agreement. However, this option is not feasible until the MFA develops its organization and functions to the level where the authority is capable of providing professional services.
    - The GSF is placed under the MFA in a structure similar to that of the National Housing Bank of India. This option raises several concerns. The experience of the collapse of the U.S. savings and loan industry in the 1980s demonstrated the potentially fatal conflict of interest when the financial institution regulatory authority and a financing institution are combined in the same organization. In addition, the MFA does not currently have the managerial resources to assume additional responsibilities.
    - MFA is a shareholder and receives dividend income. However, MFA does not have the financial capacity to make a meaningful investment.

SECTION I: A COMPARATIVE ANALYSIS OF FUNDING SCHEMES FOR MORTGAGE FINANCE REGULATORY AUTHORITIES

OVERVIEW

The regulation of mortgage finance institutions varies from country to country and even within the same country (e.g. the U.S.). In some jurisdictions, mortgage finance institutions are regulated by a specialized or unified financial services regulatory authority, in others by the Central Bank and, in the U.S. and Canada, by the regulatory authorities of the individual states or provinces. Mortgage companies and brokers are not regulated at all in some countries (e.g. Australia). In most countries, real estate appraisal (valuation) is supervised by self- regulating organizations (SROs) which may or may not be authorized by statute. In the U.S., federal law requires each state to license, regulate and supervise real estate appraisers.

In much of the world, there has been a trend towards centralizing financial institution regulation, including mortgage finance regulation, in an independent, autonomous and fiscally separate regulatory authority. Financial institutions that had been supervised by the Central Bank or other government authorities or had not been subject to any government regulation and supervision have been brought under the umbrella of the unified authority. The best known example is the Financial Services Authority (FSA) in the U.K.

FUNDING MORTGAGE FINANCE REGULATORY AUTHORITIES

Regulatory Fees and Assessments

Other than Central Banks and mortgage finance regulatory authorities that also conduct financing activities, mortgage finance and appraiser regulators fund their operating budgets by assessing fees on the regulated entities. In many jurisdictions, the statute establishing the authority requires that it operate with a balanced budget and recover all costs through fees, assessments and charges for services provided. The government may fund a temporary deficit, but the authority will be required to carry the deficit forward and recover the losses through future fee levies. Surpluses generally also are carried forward and future fee levies adjusted downward.

The Fee-Setting Process

The maximum, and sometimes the minimum, fees an authority can charge are set out in the laws and/or regulations governing the authority or are established by directives issued by the authority. Within these parameters, the authority sets the fee schedule. The fee-setting process is for the authority to prepare its annual budget for approval by the government. Once the budget is approved, the authority establishes the annual fee schedule to fund that budget. Some fees cannot be modified without amending the applicable law or regulation. Other fees can be adjusted periodically to cover the direct costs of regulation and supervision for each class of financial institution and regulated entity plus an allocation of the general and administrative expenses of the authority. Some authorities levy a base fee plus an assessment based on the number of mortgage loans, the amount of lending activity or net income. For appraisers, the initial and renewal license fees frequently are based on the class of appraisal license, e.g. residential or general.

Funding Financial Services Regulatory Authorities in Egypt

The concept of assessing regulated entities fees for services to fund the budgets of regulatory authorities is not foreign to Egypt. The Capital Market Authority (CMA), the financial lease authority (GAFI) and the Egyptian Insurance Supervisory Authority (EISA) fund their operations through fees. The Central Bank of Egypt assesses an annual supervision fee to cover the cost of regulation and supervision.

<u>Capital Market Authority</u>: The Capital Market Authority assesses the following fees:

- incorporation under the Capital Market Law: 1 per LE 1,000 of its issued capital with a minimum of LE 5,000 and a maximum of LE 15,000 and an annual fee of 2% of the companies issued capital with a minimum of LE 1,000 and a maximum of LE 5,000 (Capital Market Law, Article 72)
- companies registered on the stock exchange: .5 per LE 1,000 of the companies issued capital with a minimum of LE 2,500 and a maximum of LE 10,000 (Board of Directors Resolution No. (13) of 2002)
- service of the valuation committees of stocks paid in property: 2 per LE 1,000, with a minimum of LE 3,000 and a maximum of LE 7,500, plus an administrative fee of LE 200 (Board of Directors Resolution No. (13) of 2003)
- registration of external auditors with the CMA: LE 500 for the initial registration and an annual fee of LE 200 (Board of Directors Resolution No. (21) of 2003)
- access to documents: a fee of LE 50 per document to view a document and LE 100 for each copy of a document (Capital Market Law, Article 70)

<u>GAFI (Financial Lease)</u>: The Financial Lease Law No. 95 of 1995 and its executive regulations establish the fees levied for recording in the leasers register and the register of contracts and for modifying the register and documents.

- LE 1,500 for recording in the leasers register – legal maximum = LE 3,000
- LE 250 for modification of the leasers register – legal maximum = LE 1,000
- LE 50 for: 1) recording the financial lease contract in the register of contracts; 2) recording the deed of sale resulting from the financial lease contract; 3) modification of the financial lease contract or the deed of sale – legal maximum = LE 50
- LE 10 for marginal annotation in the two registers and for a copy of the entry in the two registers – legal maximum = LE 20

Egyptian Insurance Supervisory Authority (EISA): The annual fees paid to EISA by insurance companies are established in Article 85 of the Insurance Law as follows:

- Two and a half per LE thousand of total direct premiums for life insurance personal accident and long term health insurance and capital redemption companies
- Six per LE thousand of total direct premiums for property and liability insurance companies

Central Bank of Egypt: An annual supervision fee not to exceed one Egyptian pound per each ten thousand Egyptian pounds of the average total monthly positions of a bank during the year. The receipts of the fee are to be deposited in the Regulation and Supervision Account.

Other Funding Sources

Some mortgage finance and/or appraiser regulatory authorities generate revenue from sources other than regulatory fees. Some of these sources are:

- Inspection fees to cover the costs of on-site inspection. Inspection fees are assessed as an hourly or a daily rate
- Penalties and fines for violation of law and regulation
- Fees for industry and market information and data services
- Fees for complaint adjudication
- Fees for seminars and training programs and materials
- Investment income from compensation funds established to compensate consumers for losses resulting from fraudulent, dishonest or illegal actions by regulated entities

Other Funding Structures

Some mortgage finance regulatory authorities are housed within organizations that generate revenue from other sources. A mortgage finance supervisory department within a central bank or a Ministry of Finance can be funded from the revenue sources of the parent. In India, the National Housing Bank (NHB) is a subsidiary of the Reserve Bank of India (RBI). The NHB conducts refinancing and loan guarantee programs that generate interest and fee income unrelated to the NHB's regulatory function.

COUNTRY ANALYSIS

In many countries mortgage finance is regulated by the central bank or a department in the Ministry of Finance. Financial information about mortgage regulation is not available for these countries. For example, the Chinese and Mexican mortgage regulatory authorities are under their respective Ministries of Finance and, presumably, are funded through the state budget. In some countries, there are no specialized mortgage lenders and all mortgage finance flows through the banking system. In other countries (e.g. Australia) there is no specific law requiring regulation of mortgage finance institutions and selfregulating organizations (SROs) are relied upon to oversee the industry.

The following analysis of funding sources for mortgage finance and appraiser regulatory authorities examined seventeen states in the U.S., four provinces in Canada, the United Kingdom, China, Mexico, India, Denmark and Norway. The regulatory fee structures in the American states, Canadian provinces, the U.K., Denmark and Norway are presented detail in the tables in Annex A. The following is a summary of the range of fees (in LE) assessed.

Summary of Representative Licensing Fees

Fees in LE

	U.S.	Canada	U.K.
Application processing fees			
Mortgage Company	580 - 8,695		
Mortgage Broker	580 – 8,695		
Appraiser	290 - 1,739		
Initial license fees			
Mortgage company	1,449 - 6,956	1,293 - 4,700	12,216 - 272,085
Mortgage Broker	1,159 - 6,956	353 - 4,700	12,216 - 272,085
Appraiser	869 - 3,188		
Each branch office	232 - 1,449	940	
Annual/Renewal Fees			
Mortgage Company *	788 - 28,982	1,293 - 35,250	Minimum of 2,221 Plus fee per no. of mortgages
Mortgage Broker *	1,159 - 28,982	353 - 4,700	Minimum of 1,110 Plus fee per 11,105 in annual income
Appraiser	580 - 3,536		

** Maximum fee may be higher depending on volume of loan origination.*

United States

<u>Regulatory Structure</u>

There is no federal law governing the licensing of non-depository mortgage finance companies and mortgage brokers. Each of the 50 states has its own laws and regulations. Due to a federal law requiring the state licensing of appraisers for all federally-related mortgage transactions, every state has an appraiser licensing law. Most states today have laws regulating mortgage companies and mortgage brokers and a growing number are adopting laws governing mortgage loan officers. The impetus for the expansion of regulation of mortgage finance operators has been the increase in fraudulent, deceptive and abusive practices by mortgage market participants.

There is no consistency among the states regarding the regulatory authority charged with licensing and supervising mortgage companies and mortgage brokers. In some states, these institutions fall under the Department of Financial Institutions, while in others the Department of Professional Licensing or the Department of Real Estate has jurisdiction. Appraisers are supervised by either the Professional Licensing or Real Estate department.

In all of the states examined, the state law requires that the regulatory authority recover all of its costs through fees and assessments. For mortgage companies, mortgage brokers and appraisers, all states charge an initial license fee and a license renewal fee. Some states are on a biennial renewal schedule and others on an annual renewal schedule. Some states charge an additional fee for each branch office, an application processing fee on the initial application, an examination fee or an annual assessment. A few states charge mortgage companies and mortgage brokers an annual fee based on the volume of transactions.

Examples from Two States

Illinois

<u>Regulatory Structure</u>

In Illinois, mortgage bankers, mortgage brokers and mortgage loan originators are regulated by the Office of Banks and Real Estate (OBRE) within the Illinois Department of Financial and Professional Regulation (IDFPR). The IDFPR is a unified regulatory authority overseeing banks, thrift institutions, insurance and professional licensing, as well as mortgage finance institutions and professionals. In 2003, there were 1,764 licensed mortgage companies/brokers and 5,984 licensed appraisers. The OBRE has 263 employees.

<u>Financial Results</u>

In 2003, OBRE generated $31.8 million (LE 184.3 million) in revenue. Total expenditures for the year were $29.5 million (LE 171 million). Mortgage companies and brokers accounted for $4.7 million (LE 27.2 million) or 14.8% of total revenue and $4.9 million (LE 28.4 million) or 16.6% of total expenses and appraisers for $0.4 million (LE 2.3 million) or 1.25% of total revenue and $3.0 million (LE 17.4 million) or 10.2% of total department expenditures. The mortgage banker/broker and appraisal divisions of OBRE operated at a deficit. However, the banking division generated a surplus that covered the losses in the other divisions.

OBRE Revenues and Expenses

	Mortgage Companies & Brokers		Appraisers	
No. of Licensees	1,764		5,984	
	US$	LE	US$	LE
Licenses and fees	4,556,471	26,410,901	434,266	2,517,158
Interest income	81,171	470,496	0	0
Miscellaneous fees	5,558	32,216	25	145
Total Revenue	4,653,200	26,971,576	434,291	2,517,303
Operating Expenses	4,906,006	28,436,928	3,019,475	17,501,934

Net Deficit	(252,806)	(1,465,352)	(2,585,184)	(14,984,631)
Revenue/Licensee	2,638	15,290	73	421

OBRE charges some of the highest fees of any of the regulatory agencies examined.

OBRE Fee Schedule

Service	US$	LE
Application processing		
Mortgage company/broker	1,500	8,695
Loan originator	358	2,075
Initial license/registration		
Mortgage company/broker	1,200	6,956
Loan originator	100	580
Appraiser*	200 - 300	1,159 - 1,739
License/registration renewal		
Mortgage company/broker	2,700	15,650
Loan originator	100	580
Appraiser (biennial)*	300-550	1,739- 3,188
Each branch office	250	1,449
Appraiser education providers	1,100	6,376
Each appraisal course	100 - 200	580 - 1,159

** Fee depends on class of appraiser*
Source: OBRE fee schedule

Michigan

Regulatory Structure

The Michigan Office of Finance and Insurance Services (OFIS) supervises banks and other depository institutions, insurance companies and consumer finance companies, including mortgage companies and brokers. Real Estate Appraisers are regulated by the Licensing Division of the Department of Labor and Economic Growth. Michigan law creates two classes of mortgage financing companies: companies dealing with first lien mortgages and companies dealing with second mortgages and home equity loans. Within these general categories, there are three classes of licensee: mortgage broker, mortgage lender and mortgage loan servicer. In 2003, OFIS generated over $4 million (LE 23.3 million) in revenue from licenses and fees. The revenue per licensee was $893 (LE 5,178).

OFIS Fee Schedule

OFIS charges an annual activity fee in addition to a base fee. In 2003 OFIS generated almost $4 million (LE 23.2 million) in fee revenue, about $1,000 (LE 5,796) per mortgage broker/lender /servicer, and $580 (LE 3,362) per secondary mortgage broker/lender/servicer.

OFIS Fee Schedule

Application/Renewal Fees	US$	LE
Application processing fee	450	2,608
Initial Licenses		
Mortgage broker	450	2,608
Mortgage lender or lender/broker	600	3,478
Loan servicer	750	4,347
Annual renewal		
Mortgage broker	0 - 5 loans = $450 More than 5 loans = $450 + $2/loan	
Mortgage lender or lender/broker	0 - 10 loans = $600 More than 10 loans = $600 + $2/loan	
Loan servicer	Up to $1 million in servicing = $750 Over $1 million = $750 + $.037/$1,000	

Source: OFIS licensing fee schedule

Canada

<u>Regulatory Structure</u>

As in the United States, mortgage company/mortgage broker regulation in Canada is under the provincial governments. In some provinces, the government has delegated its supervisory authority to a Real Estate Council. There is no government regulation of appraisers. Appraisers are certified by the Appraisal Institute.

It is estimated that about 25% of all new mortgage business in Canada is originated by mortgage companies/brokers, although there is wide variation among provinces. Several provinces have published schedules of fees. The table below shows the mortgage broker registration fee schedules for British Columbia, Saskatchewan, Manitoba and Ontario.

Fee Schedule

Mortgage Company and Mortgage Broker Fees in Canada

	CAD	LE
British Columbia		
Initial license	1,000	4,700
Each branch office	200	940
Renewal	1000	4,700
Saskatchewan		
Initial license		
Mortgage company	1,000	4,700
Mortgage broker	150	705
Renewal		
Mortgage company	Total assets < 10 million = 2,000 Total assets ≥ 10 million = 7,500	9,400 35,250
Mortgage broker	150	705
Examination fee	100 per hour	470 per hour
Manitoba (initial and renewal)		
Mortgage company	350	1,645
Authorized officials and salespersons	75	353
Examination fee	75	353
Ontario (initial and renewal	275	1,293

Source: Provincial licensing fee schedules and regulations

United Kingdom

Regulatory Structure

The Financial Services Authority (FSA) in the U.K. is a unified financial services regulatory authority funded solely from fees. All direct costs of supervision of an industry class are charged to that industry. Costs for FSA administrative services are allocated among all regulated entities. The FSA began regulating mortgage lenders only in October, 2004. The experience of the FSA mortgage lender and insurance division in starting up its operations and developing a self-funding budget is illustrative of the process the Egyptian Mortgage Finance Authority is undergoing today. The significant difference is that in England there was an existing base of over 800 mortgage lenders against which levies could be assessed.

Financial Results

As may be expected, any new regulatory authority will have a budget shortfall during its start-up phase. The FSA has estimated that it incurred £11.5 million (LE 128 million) in start-up costs before it began processing applications. As of March, 2005, the accumulated deficit was £14.3 million (LE 158.8 million). This deficit will be carried forward to be recovered by 2008 through the collection of periodic fees.

Fee Schedule

Each industry classification within the FSA has its own fee structure. The fees to be assessed are based on the annual funding requirement (AFR) for each industry classification. The 2005/2006 AFR for mortgage and general insurance regulation is £44.1 million (LE 490 million), consisting of £ 38.6 million (LE 428.7 million) for current expenditures and £5.5 million (LE 61 million) for recovery of the deficit and contribution to a reserve fund. The £38.6 million in current expenditures includes a £14.5 million (LE 161 million) allocation of overhead. These entities also are required to pay an assessment to support the Ombudsman, the consumer protection division of the FSA. The table on the following page sets out the fee schedule for applications and annual fees for mortgage lenders and mortgage arrangers (brokers).

People's Republic of China

The Chinese Mortgage Market

Mortgage lending in China has been growing rapidly in recent years. According to a study by Goldman Sachs, mortgage lending grew at an annual rate of 54.9% between 2000 and the first half of 2004 and 57% year on year from the first half of 2003 to the first half of 2004 alone. Mortgage loans accounted for 8.5% of total loans as of the first half of 2004, compared to 3.2% in 2000. This rapid growth was due to several factors: 1) housing reforms begun in 1998 that terminated the construction and allocation of welfare housing; 2) People's Bank of China (PBOC) regulations since 1999 encouraging banks to grow their mortgage portfolios; 3) PBOC regulations maintaining low interest rates for housing loans.

Due to changes in government policy, the recent high growth rates in mortgages may not be sustained. In 2005, the Chinese government became concerned about a real estate bubble that could cause a financial crisis. The PBOC issued new policy statements to tighten mortgage lending requirements. Several cities followed suit, although some (e.g. Shanghai) had to quickly rescind their regulations. In March, 2005, the PBOC abolished the preferential interest rate of 5.31% for mortgages.

Financial Services Authority
Fee Schedule
Mortgage Lenders and Arrangers

MORTGAGE LENDERS	£	LE
Application fees by gross advances		
0-10 million	1,100	12,216
>10-100 million	9,750	108,279
>100 million to 1 billion	14,750	163,806
> 1 billion	24,500	272,085
Annual fees per number of mortgages	£ per mortgage	LE per mortgage
Minimum fee	200	2,221.10
0-50	0.00	0.00
51-500	2.08	23.10
501-1,000	0.83	9.22
1,001-50,000	0.62	6.89
50,001-500,000	0.21	2.33
> 500,000	0.04	0.44
MORTGAGE ARRANGERS (BROKERS)	£	LE
Application fees by annual income		
0-1 million	1,100	12,216

>1-3 million	5,500	61,080
>3-25 million	10,750	119,384
>25 million	24,500	272,085
Annual fees per thousands in annual income	£ per 1,000	LE per 11,105
Minimum fee	100.00	1,110.55
0-100	0.00	0.00
101-1,000	0.80	8.88
1,001-5,000	0.74	8.22
5,001-15,000	0.53	5.89
15,001-100,000	0.21	2.33
>100,000	0.08	0.89

Source: FSA Tariff Schedule

All mortgage lending will now be treated as "normal" lending and have a minimum lending rate set at 90% of the official rate, according to maturity. For example, the official lending rate for loans with 5 to 10 year maturities is 6.12% and the minimum rate is 5.51%. Most commercial banks have started charging the 6.12% official rate. The effect of this change in policy has been an immediate cooling of the mortgage market.

Market Structure

Banks account for most of the real estate lending in China. It is estimated that over 80% of financing for land purchase and property development comes through banks. The housing mortgage system in China has only recently developed. Mortgages for housing are largely governed by legislation and regulation issued by local governments. The largest originator of home mortgages is the China Construction Bank, which accounts for about 35% of total real estate loans in the country. In addition to bank loans, workers in a city can borrow from local Housing Provident Funds (HPF) if their employers or work units participate in the funds. It has been estimated that in 2003 there were 67 million participants in HPFs. As of September, 2003 HPFs had funds of CNY 346.7 billion (LE 243 billion) and outstanding mortgage loans of CNY 137.5 billion (LE 96.4 billion). HPF mortgage loans are attractive because the maximum interest rate set by the PBOC on HPF loans is lower than the rate available on private mortgages. Currently the interest rate on HPF loans is 3.96% for loans with a maturity of less than five years and 4.41% for longer maturity loans

Regulation of Mortgage Finance

Mortgage lending in China is regulated by several governmental entities. Until 2003, the PBOC regulated all Chinese financial institutions. In 2003, the State Council established an independent banking regulatory body under the Ministry of Finance, the China Banking Regulatory Commission (CBRC). Under the Law on Banking Regulation and Supervision, the CBRC assumed the authorization and supervisory responsibilities for banks, asset management companies, trust and investment companies and other depository institutions formerly under the PBOC and the Central Financial Work Committee of the Communist Party of China. The PBOC retained its authority to set mortgage interest rates. Individual cities and local governments also have jurisdiction over mortgage lending, setting the loan terms and conditions permitted on mortgage loans within their jurisdictions. Housing provident funds are not yet under the jurisdiction of the CBRC or any other regulatory body.

Except for the provisions of the Commercial Banking Law on the establishment of banks and the uses of bank funds, there is no specific regulatory framework for real estate finance. One of the goals of the reform of the Chinese financial services sector is to build and improve the legal and regulatory system of the real estate financial market. This is of special importance due to the recent spate of defalcations at several Chinese banks involving large real estate loans.

The Law on Banking Regulation and Supervision does not authorize the CBRC to assess fees or assessments against the regulated institutions. There are provisions of the law assessing penalties for violation of law and regulation. Presumably, the operating expenses of the CBRC are funded from the state budget.

Mexico

Housing and Mortgage Markets

According to the Mexican government, in the next two decades the financing of over 700,000 new houses per year will be required just to accommodate the growth in new households in Mexico, double the current level of housing production. Mexico is developing innovative housing finance solutions to stimulate a higher level of housing production in the country. The Mexican government has made housing and housing finance a top national priority. The National Housing Program is the cornerstone of the National Development Plan that is supported by the U.S. and Canadian governments.

Historically, Mexico's housing production has been driven by the availability of mortgage credit through government-sponsored programs. The two largest government programs have been FOVISSSTE, a combination low cost mortgage and pension plan for public sector employees and INFONAVIT, a similar program for private sector workers. Both programs are funded by a 5% mandatory savings program. These two programs have traditionally targeted the social and economic housing segments of the market. The third major government program was FOVI, a federal development bank that loaned money to financial institutions to finance mortgages for low and moderate income households.

Specialized Finance Institutions - SOFOLES

Until the mid-1990s, banks financed most of the private sector mortgages. From 1991 to 1994 commercial bank mortgage origination averaged about 130,000 loans per year. The Mexican financial crisis of 1994-1995 brought bank mortgage lending to a virtual halt. In response, the government created a new housing finance intermediary, Financial Societies of Limited Object or SOFOLES. SOFOLES resemble mortgage finance companies in the Egypt. They are non-depository financial institutions limited to granting credit to specific economic sectors or activities, primarily mortgage, consumer and small business lending. There are about 32 SOFOLES licensed and operating, with 19 authorized to operate in the mortgage sector. Since 1994, SOFOLES have originated 20% to 25% of home mortgage loans every year. As of March, 2004, SOFOLES accounted for 4% of total financial assets in Mexico.

SOFOLES can raise financial resources by issuing stock and borrowing from commercial banks, the government-sponsored mortgage institutions, foreign or development banks

(World Bank, IDB) and the capital market. As of March, 2004, borrowing from these sources represented 77% of total SOFOLES financing, primarily through below-market rate loans under the original FOVI on lending program. In the last few years, SOFOLES have been able to diversify their funding sources to some extent through securitization and issuance of mortgage bonds. In 2000, the first mortgage-backed bond was issued and in 2004, SOFOLES began issuing mortgage-backed securities backed by bridge construction loans and home mortgages in the Mexican and international capital markets.

Regulation of SOFOLES

SOFOLES are regulated under the Mexican Credit Institutions Law and fall under the supervision of the Ministry of Finance's Secretariat of Housing and Public Credit (SHCP), the Security Exchange Commission (CNBV) and the Central Bank. Regulation of SOFOLES differs depending on whether they are independent domestic corporations or affiliates of a foreign financial group. All SOFOLES are required to register as corporations and must obtain a license from the SHCP. To date, SOFOLES are subject to few regulatory controls other than filing the standard audit with SHCP and CNBV. This lack of prudential regulation has led to some concern by the IMF that the rapid growth of SOFOLES in recent years could lead to inappropriate risk-taking.

SHF

Organization and Functions

In 2001, the mission and activities of FOVI were reconstituted and a new institution, the Federal Hypothecating (Mortgage) Society, or SHF, emerged. The goal of the SHF is to be a catalyst for vigorous development of a Mexican mortgage market that will look primarily to the secondary mortgage market and long term bond investors for capital. SHF functions as a wholesale funds provider and facilitator to mortgage lending institutions. As with Fannie Mae in the U.S., SHF imposes minimum capital standards and standard loan underwriting, servicing and documentation requirements on participating institutions, improving the transparency and efficiency of the Mexican mortgage market. SHF also has facilitated the improvement of foreclosure, appraisal and registry systems and has encouraged the evolution of private mortgage insurance.

SHF Programs

SHF continued the FOVI program of onlending funds through participating institutions to finance affordable mortgages to low and middle-income households. The Mexican government budgeted $4.5 billion (LE 26 billion) for this purpose. SHF also raises funds by issuing bonds guaranteed by the Mexican government. The strategic plan for SHF is that by 2009, it will cease furnishing liquidity to the market through onlending. In the interim, the SHF is evolving into a guarantee agency for mortgage loans originated by SOFOLES and banks and a financial guarantor of credit lines to and mortgage-backed securities issued by these institutions. In the primary mortgage market, SHF offers a guarantee of up to the first 25% of loan loss for unsubsidized loans and 70% for subsidized loans. To support borrowing by mortgage lending institutions, SHF provides a partial guarantee of the timely payment of principal and interest on loans to and mortgage-backed securities issued by banks and SOFOLES.

SOFOLES' dependency on SHF direct funding remains high, particularly in those SOFOLES with a higher percentage of individual mortgages in their portfolios.

SOFOLES that have concentrated on construction bridge loans have been the most active in issuing mortgage-backed securities. However, mortgage SOFOLES have made extensive use of bank funding with the SHF partial guarantee.

SHF's focus on partial first loss mortgage and financial guarantees is having a significant influence on the development of the Mexican mortgage market. Mortgage lending activity has increased substantially, with the volume of mortgages originated by the private sector expected to grow by 35% in 2005. Competition among financial institutions for a larger share of the market has intensified and the market is consolidating. In 2004, three banks acquired SOFOLES and two large banks formed partnerships with homebuilders.

Another important SHF activity is the establishment and administration of a centralized database of borrower and mortgage loan characteristics (FIEH) that will provide the mortgage market with greater transparency. FIEH has information on over 300,000 loans which has made it possible to build credit scoring (FICO) models and accurately price SHF mortgage and financial guarantees. SHF also uses its credit scoring model to pre-approve funding of SOFOLES loans.

As SHF evolves from liquidity facility to a guarantor, its revenue sources will change. Guarantee fees will supplant interest earned as the primary revenue source to finance SHF's operations. Guarantee fees on securitized transactions are generally paid from the excess interest
generated by the underlying mortgages. The FIEH may provide an additional source of funds through subscriptions by lenders, insurance companies, rating agencies and investors.

India

<u>The Indian Mortgage Market</u>

The Indian mortgage market consists of public sector housing finance institutions, banks, cooperatives and housing finance companies (HFCs). HFCs are limited purpose housing finance institutions. As of March, 2005, there were 46 HFCs operating in India, of which 24 were depository institutions. In the past, HFCs were the predominant home mortgage lenders in India, but in recent years, banks have become more aggressive competitors. The table below shows the market share by institution of home mortgage origination in FY 2003/2004 and FY 2002/2003.

Home Mortgage Loans Originated
By Commercial Banks and Housing Finance Companies

	FY 2003/2004	FY 2002/2003

	Rs in Billions	LE in Billions	% of Total	Rs in Billions	LE in Billions	% of Total
Commercial Banks	328.2	43.6	61.1%	235.5	31.3	56.9%
Housing Finance Companies	208.6	27.7	38.9%	178.3	27.7	43.1%
Total	536.8	71.3	100.0%	413.9	55.0	100.0%

Source: NHB FY 2003/2004 Annual Report

The National Housing Bank

Housing finance companies are regulated by the National Housing Bank (NHB), a subsidiary of the Reserve Bank of India (RBI). The NHB was established in 1988 to promote the development of the housing finance industry in India. The NHB is fiscally independent of the RBI and has established a general fund that receives all revenue and makes all payments. The NHB's regulations for HFCs are similar to bank regulations in establishing standards for safety and soundness, minimum capital requirements and risk management. Recently the NHB has proposed standardization of loan origination and documentation. The NHB also sets interest rates and terms for deposits and loans.

In addition to its regulatory functions, the NHB offers programs to HFCs for: 1) refinancing credit; 2) project finance; 3) financing for low income housing schemes; 4) guarantee of HFC financial obligations; 5) securitization; and 6) NHB equity investment in HFCs. The NHB has been the primary source of long term financing for home mortgages in India. The NHB's mortgage market funding activities are discussed in the Secondary Mortgage Market section of this report.

A new NHB activity will be investment in the proposed India Mortgage Guarantee Company (IMGC). The IMGC will be capitalized at $40 million by the NHB, IFC, Canadian Mortgage and Housing Corporation (CMHC), United Guaranty Corporation (UGC) and the Asian Development Bank (ADB).

Funding Sources

The NHB is funded by share capital, domestic and international loans and grants and retained earnings from its funding, guarantee and securitization operations. The paid-up share capital of the bank as of June, 2004, contributed entirely by the RBI, was Rs 4.5 billion (LE 598 million) and total shareholder's equity was Rs 16.6 billion (LE 2.2 billion). NHB also has received significant funding from USAID, the World Bank and the Asian Development Bank.

The NHB raises funds by selling bonds with or without the guarantee of the government of India and borrowing money from the government, or any other institution organized by the government, to funds its operations and programs. As of June, 2004, the NHB had Rs 82.5 billion (LE 10.9 billion) in bonds and debentures outstanding and RS 19.2 billion (LE 25.4 billion) in borrowing. During FY 2003/2004, the NHB raised Rs 34.65 billion (LE 4.6 billion) in the credit markets through five channels:

- Capital Gains Bonds – (exempt from capital gains taxes) Rs 23.9 billion (LE 3.2

billion)

- Taxable Bonds – Rs 5 billion (LE 664 million)
- Tax Exempt Bonds – Rs 500 million (LE 66.4 million)
- Borrowings from the RBI – Rs 1.25 billion (LE 166 million)
- Loans from Banks and Other Financial Institutions – Rs 4 billion (LE 531 million)

Financial Results

The NHB is a well capitalized, profitable institution. As the financial and performance highlights show, in FY 2003/2004 the NHB had a 26.25% return on equity and a 1.03 return on average operating assets. The NHB operates at a profit because its cost structure is relatively lean. The NHB has only 84 employees.

National Housing Bank
Financial Statements

	FY 2003/2004		FY 2002/2003		FY 2001/2002	
	Rs (billions)	LE (billions)	Rs (billions)	LE (billions)	Rs (billions)	LE (billions)
Balance Sheet						
Total assets	131.08	17.37	102.90	13.64	70.83	9.39
Loans and advances	82.84	10.98	68.83	9.12	52.05	6.90
Investments	8.81	1.17	3.87	0.51	1.79	0.24
Total liabilities	114.51	15.18	87.51	11.60	57.65	7.64
Bonds and debentures	82.47	10.93	60.11	7.97	30.52	4.04
Borrowings	19.23	2.55	15.22	2.02	17.78	2.36
Shareholders equity	16.57	2.20	15.39	2.04	13.17	1.75
Paid up capital	4.50	0.60	4.50	0.60	3.50	0.46
Reserves & retained earnings	12.07	1.60	10.89	1.44	9.67	1.28
Profit & Loss Statement						
Total income	8.53	1.13	8.57	1.14	8.57	1.14
Interest and discount income	7.44	0.99	6.86	0.91	6.86	0.91
Income from investments	0.55	0.07	0.38	0.05	0.38	0.05
Other income	0.39	0.05	0.55	0.07	0.55	0.07
Total expenses	6.97	0.92	6.97	0.92	6.97	0.92
Interest expense	6.11	0.81	5.39	0.71	5.94	0.79
Personnel expense	0.03	0.00	0.10	0.01	0.00	0.00
Profit before tax	1.55	0.21	1.28	0.17	1.78	0.24
Profit after tax	1.18	0.16	1.21	0.16	0.95	0.13
Performance Measures						

Capital adequacy ratio	30.05%		31.41%		31.41%	
Return on average equity	7.39%		9.09%		8.85%	
Return on average assets	1.03%		1.39%		1.37%	
Net margin *(net profit/total income)*	13.85%		14.08%		11.03%	
Staff productivity *(net profit/ staff)*	1.37	0.18	1.17	0.16	0.92	0.12

Source: NHB Annual Reports

Denmark

Denmark is widely considered to have one of the best mortgage finance and financial services regulatory systems in Europe. Mortgage lending began in Denmark in 1797 with the founding of the first mortgage bank. Today there are eight mortgage banks operating in the country. Two mortgage banks specialize in home mortgages, three focus on commercial, industrial and construction credit and three offer mortgages to all sectors. In 2003, Danish mortgage banks originated € 68.9 billion (LE 517 billion) in mortgage loans. Two-thirds of these loans were for owner-occupied homes.

One of the unique characteristics of the Danish mortgage market is the importance of mortgage bonds as a funding source for mortgage banks. In 2003, mortgage banks had over € 177 billion (LE 1,328 billion) in mortgage bonds outstanding, of which almost € 112 billion (LE 840 billion) were collateralized by unsubsidized home mortgages.

The Danish Mortgage Credit Act and the Danish Financial Services Act form the legal framework within which Danish mortgage banks operate. The Danish Financial Services Act of December, 2003 consolidated the individual financial services regulators into a unified financial services regulatory authority – the Danish Financial Supervisory Authority or Finanstilsynet - under the Minister of Economic Affairs. Finanstilsynet consists of 4 senior managers and 13 divisions overseeing different functions and classes of financial institution.

Under the Danish Financial Services Act, the expenses of the Finanstilsynet, less interest income and revenue from the sale of goods and services, must be funded by fees paid by the regulated institutions. There is a minimum fee of DKK 2,000 (LE 2,016). Fourteen entities pay a statutory annual basic amount that is adjusted annually according to the Finanstilsynet budget appropriation. For example, the 2004 annual fee for a financial holding company was DKK 5,000 (LE 5,040); the Guarantee Fund for Depositors and Investors, DKK 95,000 (LE 95,760); each issuer of collateralized mortgage obligations and similar securities, DKK 10,000 (LE 10,080) per series of securities. The sum of all the annual basic amounts is deducted from the total Finanstilsynet budget and a levy for each class of institution is assessed against the balance. Mortgage banks pay an annual levy of 13.2% of the difference between the expenses of the Finanstilsynet and the sum of the statutory annual fees. The fees for the relevant year are charged at the beginning of December and are payable by year end. If there is a difference between the fees actually paid and actual Finanstilsynet expenses, the balance is carried forward to the following fiscal year.

Norway

Mortgage finance institutions in Norway are regulated by a unified financial services regulatory authority - Kredittilsynet. Kredittilsynet supervises financial institutions, insurance companies, real estate agents, debt collection agencies and the securities market. There are eleven mortgage companies in Norway under the jurisdiction of Kredittilsynet. Under the law creating the authority, all costs must be recovered through a levy against the regulated entities. The levy percent for any class of institution is based on the costs of supervision of that class. For banks, finance companies and mortgage companies, the levy is assessed on the institution’s total assets at the beginning of the year. Kredittilsynet can establish a minimum and maximum amount to be paid by an institution within each class of institution. In 2002 the total levy was NOK 121.13 million (LE 111.8 million), of which mortgage companies accounted for 3.79% (LE 4.2 million). The levy against mortgage company assets was .0024%.

Applicability of International Models to the Egyptian Mortgage Finance Authority

Given the existing law governing the MFA, the most appropriate models for funding mechanisms are found in the United States, Canada, the U.K., Denmark and Norway. Denmark and Norway are the most similar to the financial market structure in Egypt because there are few mortgage companies in operation. The National Housing Bank of India is a liquidity facility as well as the mortgage finance regulatory authority and, unless the MFA were given similar powers, does not serve as a good model for the MFA.

SECTION II: ROLE OF THE GUARANTEE AND SUPPORT FUND (GSF)

In the future, the Real Estate Guarantee and Support Fund (GSF), in conjunction with the Mortgage Finance Authority (MFA), could be used as the vehicle to develop a mortgage financing institution to support the primary mortgage market. As has been the case in many other countries, an effective government or public/private mortgage financing institution could have a significant impact in stimulating the Egyptian housing and real estate market, as well as the mortgage market. However, neither the GSF nor the MFA has the capacity to initiate such programs today.

THE EGYPTIAN HOUSING AND REAL ESTATE MARKET

The real estate and construction sectors are major generators of GDP and employment in Egypt. According to FY 2004/2005 projections by the Ministry of Planning, real estate activities will account for LE 15.6 billion, or 3.9% of GDP, an increase of 5.4% from FY 2003/2004. Construction and building are forecast at LE 16.8 billion, or 4.2% of GDP. Real estate investment is expected to reach LE 9.8 billion in FY 2004/2005 and construction and building, LE 1.3 billion, 11.5% and 1.6% respectively of total investments in Egypt. In terms of employment, the real estate and construction sectors are even more important. Real estate and construction are projected to account for almost 2.2 million workers in FY 2004/2005, or 11.1% of total employment.

The formal housing sector has not experienced strong growth in recent years, despite the increasing demand for affordable housing. The following table shows housing statistics as of June 30 from 2000 through 2004.

Housing in Egypt

	2004	2003	2002	2001	2000
Number of housing units constructed (millions of units)	3.5	3.4	3.2	3.0	2.8
Number of housing units in new cities belonging to the New Urban Communities Authority (thousand of units)	231.2	230.4	230.4	230.4	230.4
Total investment in housing, real estate and public utilities (LE in billions)	13.38	n/a	14.37	14.45	n/a

Source: IDSC; Ministry of Housing, Utilities & Urban Communities; Central Bank of Egypt

In recent years, the Egyptian housing market has been shaped by two forces: the scarcity of affordable housing for low and middle income households and the overbuilding of luxury homes. There is strong demand for moderately priced housing, particularly for new families, but at the same time it is estimated that more than one million flats are closed and uninhabited. According to the authors of the UNDP Egypt Human Development Report (EHDP) 2004, current housing policies are not adequate to manage the demographic challenges of a rising population and continuing urbanization. The EHDP urges that the Egyptian government reform the housing sector by decentralizing planning, establishing adequate provisions for services and financial resources and overhauling the government housing subsidy programs.

One new initiative taken by the Egyptian government to address the housing affordability issue is an agreement between the National Bank of Egypt (NBE) and the Real Estate Finance Guarantee and Support Fund (GSF) to subsidize the down payment on house purchase by low income households. It is expected that 1,500 housing units will be financed under this program. Under the agreement, signed in early April, 2005, the GSF will provide a non-refundable grant of the lesser of 15% of the value of the home or LE 10,000 to home buyers with annual incomes equal to or less than LE 12,000 for an individual and LE 18,000 for families. The home buyer is required to pay 20% of the purchase price, with NBE financing the balance at a 12% interest rate over 30 years, with monthly installments not to exceed 25% of the borrower's income.

The upper end of the housing sector has shown some improvement. Over the last year, the oversupply of higher priced homes has begun to be absorbed. In areas like Zamalek, Maadi and New Cairo real estate professionals report that the demand has actually exceeded the supply. Since the devaluation of the Egyptian pound, real estate investment has once again become attractive, with home values appreciating at an annual rate of 15% to 18%. Apparently, these home purchases have not been financed with mortgages. Buyers have continued the practice of purchasing new homes on installment contracts from the developer and existing homes for cash.

CURRENT ISSUES OF MORTGAGE FINANCING AND REFINANCING

Despite the creation of two mortgage companies under the Real Estate Finance Law of 2001 and expanded real estate lending authority for commercial banks, mortgage financing in Egypt has been slow to develop. Five major problems are generally cited as impediments to the development of the mortgage finance system: 1) the requirement that mortgages be granted only on property that is registered or capable of registration; 2) the high cost of finance in the current interest rate environment; 3) limited expertise in real estate related activities, such as appraisal and loan underwriting; 4) the absence of a "credit culture" among the population; and 5) uncertainty about the enforceability of the foreclosure procedures in the law.

Other areas where government initiatives could stimulate the mortgage market are: 1) lower the risk-weight for home mortgages held by commercial banks for computation of risk-based capital; 2) create a true mortgage default insurance or guarantee program under the GSF; 3) establish a liquidity facility to refinance mortgage portfolios; 4) create a financial guarantee program for mortgage-related securities issued by financial institutions; 5) finalize securitization regulations.

The government already is undertaking some of these initiatives.

- Negotiations with the World Bank for a project that would create a liquidity facility to refinance mortgages
- the Capital Market Authority (CMA) is preparing its regulations governing securitization transactions

The Central Bank of Egypt (CBE) may not be willing to give home mortgages a lower risk weight until the market is more mature and there is sufficient delinquency and default experience to support a lower risk-weight. The creation of a true mortgage default insurance or guarantee program would strengthen the arguments in favor of lower risk weighting. Mortgage insurance or guarantee also would mitigate lenders' concerns about foreclosure. In virtually all countries that have introduced a mortgage default insurance or guarantee system, the volume of mortgage lending has increased and affordability has been enhanced because required borrower down payments have been reduced. As has been seen in Mexico and India, a financial guarantee by a governmental agency is effective in increasing the volume of issuance of mortgage securities.

THE REAL ESTATE FINANCE GUARANTEE AND SUPPORT FUND (GSF)

Authority and Functions

The Real Estate Finance Law authorized the establishment of the Guarantee and Subsidy for Real Estate Activities Fund (GSF) to "guarantee and subsidize real estate finance activity". Presidential Decree No. 4 of 2003 established the GSF as a guarantee and subsidy fund for low-income households. To date, the GSF has not been adequately funded to perform its functions. Most of its assets consist of properties contributed by the Ministry of Housing that must be sold off to generate cash. Unless the government is willing to make a greater financial commitment to the GSF and/or the GSF can be restructured to include revenue generating functions, the fund will not play a meaningful role in providing affordable housing finance.

Structure

Even if the GSF were adequately funded, combining a subsidy program and a mortgage guarantee system in a single fund is a flawed concept. If the GSF intends to offer a mortgage insurance or guarantee program similar to those offered in many other countries, the subsidy and guarantee functions of the GSF should be separated into two individual funds – the GSF subsidy fund and the GSF mortgage guarantee fund. In order to be actuarially sound, the guarantee fund would need independent financial integrity. Its financial resources should not be diverted to support subsidy programs unless the guarantee fund's accountants, actuaries and board of directors have determined that there are surplus funds that can be transferred to the subsidy fund.

GSF Mortgage Guarantee Program

Presidential Decree No. 4 of 2003 restricts mortgage default insurance or guarantee functions to low income borrowers, although the Real Estate Finance Law does not include such a limitation. However, under the Decree and the Law, only private mortgage market participants are required to pay the guarantee fee of up to 2% of the "finance installment". Low income borrowers are exempted from paying the guarantee fee. In essence, the guarantee fee is a tax on unsubsidized mortgage lenders and borrowers for the benefit of defaulting low income borrowers. The guarantee fee increases the cost of financing for unsubsidized borrowers without providing them any benefit.

Even if the GSF expands the guarantee program to cover all home mortgage borrowers, the program as it is currently structured is inadequate. Mortgage insurance or guarantee covers all or a portion of the loss on default on mortgages. The GSF guarantee scheme covers up to three months of payments every five years in the event of a borrower's involuntary unemployment or disability. This is not mortgage insurance, but payment protection insurance. The GSF is supposed to recover the funds advanced, but the procedures for doing so have not been established. The current system furnishes perverse incentives to borrowers who will believe that they have the right to receive a government subsidy of three installment payments every five years with no penalty or cost. If the government decides that it will establish a true mortgage guarantee system, a new Presidential Decree relating to the mortgage guarantee fund should be considered and the regulations governing the GSF guarantee overhauled.

MORTGAGE INSURANCE GUARANTEE PROGRAMS WORLDWIDE

There is general agreement that a mortgage guarantee or insurance system is an essential element of a well-functioning mortgage market. As shown in the table on the following page, mortgage default insurance is widely used in both developed and developing economies.

REPRESENTATIVE MORTGAGE INSURANCE PROGRAMS

Country	Public/Private	Loan Coverage
United States	Public – FHA Public – States Private	100% Typically 25% - 30% 20% - 30%
Canada	Public – CMHC Private	100% < 100%
Hong Kong	Public - HKMC	25%
Philippines	Public - HGC	85% to 100%
Kazakhstan	Public	25% - 50%
Australia	Private	≤ 100%
Mexico	Public - SHF	Private loans 25% Gov. loans 70%
France	Public	100%
Italy	Private	20% - 40%
Spain	Private	20% - 40%
Netherlands	Public	100%
Finland	Public	≤20% up to €25,250
Sweden	Public	< 100%
South Africa	Private - NGO	20%
Israel	Private	20% - 30%
Lithuania	Public	100%

The creation of a mortgage insurance program in Egypt would enable mortgage lenders to lower the borrower's required investment, reduce mortgage interest rates and lengthen maturities, all of which make mortgage finance more affordable to a broad range of the population. With a credible mortgage insurance scheme in place, the CBE would be more inclined to grant GSF insured home mortgages held in bank portfolios a lower risk weight. Reducing the risk-weighted capital requirement for home mortgages held by banks would provide a powerful incentive for banks to increase their mortgage lending activities, particularly in light of the recent removal of the 5% ceiling on new mortgage lending. Mortgage insurance also facilitates securitization by transferring all or a portion of the risk of loss on default to the mortgage insurer.

Converting the current GSF low income payment protection guarantee program to a mortgage guarantee program will require capitalization by the government, perhaps with participation by international organizations. It also will require substantial preparatory work, including:

- making policy decisions about coverage, the structure of the program and the appropriate organization structure;
- conducting a survey of mortgage lending by banks to create a statistical basis for projecting mortgage loan volume;
- performing an actuarial study to determine, based on projected loan volumes, an appropriate guarantee fee schedule;
- drafting the law and executive regulations required to implement the program;
- designing loan underwriting, documentation and servicing standards, forms and documents;
- developing program procedures.

Given the amount of work involved in creating a mortgage insurance program, it is likely that it would require two to three years before a program could be operational.

Country Analysis

The mortgage insurance or guarantee programs in five different countries are analyzed. The oldest and best known is the Federal Housing Administration (FHA) in the United States. The FHA limits its mortgage insurance program to homes below specified values. Private mortgage insurance companies in the U.S. offer mortgage insurance on any home, regardless of price. Three other well-established mortgage insurance/guarantee programs are described: the Canadian Mortgage Finance Corporation (CMHC), the Housing Guaranty Corporation (HGC) in the Philippines and the Hong Kong Mortgage Corporation (HKMC). It also is interesting to look at a new mortgage guarantee program, the Kazakhstan Mortgage Guarantee Fund (KMGF). Extensive study and analysis, funded through USAID's Kazakhstan Financial Services Project, went into developing the insurance programs and premium structure of the KMGF.

The loan-to-value limits, insurance coverage and premiums of mortgage insurance or guarantee programs discussed below are summarized in the table below. In this summary, the premium rates are for a 15 year loans. Details on the structure of mortgage insurance premiums for the mortgage insurance/guarantee programs analyzed are provided in Annex B.

Range of Mortgage Insurance Premiums
For Representative Mortgage Insurance Programs

	Premium Paid at Settlement	Annual Premium

	Premium % of Original Loan Amount	Amt per LE 10,000	Premium % of Original Loan Amount (Annual)	Annual Amt per LE 10,000	Amt Paid Monthly
100% Coverage					
Home Loans	1.00% to 2.00%	100 to 200			
Development Loans	2.00% to 2.75%	200 to 275			
50% Coverage [1]	2.17% to 3.79%	217 to 379	0.38% to 0.66%	38 to 66	3.16 to 5.50
40% Coverage [1]	1.96% to 3.26%	196 to 326	0.34% to 0.57%	34 to 57	2.83 to 4.75
35% Coverage [1]	1.86% to 3.00%	186 to 300	0.32% to 0.52%	32 to 52	2.66 to 4.33
30% Coverage [1]	1.75% to 2.73%	175 to 273	0.31% to 0.49%	31 to 49	2.58 to 4.08
25% Coverage [2]	0.70% to 2.88%	70 to 288	0.29% to 0.73%	29 to 73	2.41 to 6.08

[1] *Kazakhstan Mortgage Guarantee Fund (KMGF) only*

[2] *Hong Kong Mortgage Corporation (HKMC) annual premium program has a first year fee ranging from 0.24% (LE 55) to 1.26% (LE 126)*

United States

Federal Housing Administration (FHA)

Background and History

In the United States, The Federal Housing Administration (FHA) is the government agency that insures home mortgages. The FHA is a department within the Department of Housing and Urban Development, (i.e. the Ministry of Housing). Another government agency, the Veteran's Administration (VA) guarantees home mortgages made to veterans.

FHA mortgage insurance was created in 1934 to address the real estate crisis caused by the Great Depression. The stated objectives of FHA mortgage insurance were to "facilitate home ownership, stimulate the construction and financing of housing, upgrade the quality of housing and improve mortgage lending practices." The FHA was effective in achieving these objectives and, in later years, in facilitating the financing of residential properties involving risks too great for the private sector to assume. The creation of FHA laid the foundation for the use of long term fully amortized loans with low down payment requirements, improved property standards and appraisal procedures and a standardized mortgage qualification process.

Insured Mortgages

The FHA administers over 40 different mortgage insurance programs. The most widely used programs are the Basic Mortgage Insurance Program (Section 203(b)), the Condominium Mortgage Insurance Program (Section 203(c)) and the Rehabilitation Program (Section 203(k)). The basic Section 203(b) FHA home mortgage insurance program allows a home buyer to borrow up to 97% of the lesser of the sales price or value of the house up to the maximum mortgage amount permitted under the FHA mortgage insurance program. The 2005 "basic" mortgage limits for FHA insured loans are:

2005 FHA "Basic" Mortgage Limits

Units in Structure	Maximum Mortgage	Maximum Mortgage

	US$	LE
One	$172,632	1,000,630
Two	$220,992	1,280,947
Three	$267,120	1,548,321
Four	$331,968	1,924,203

FHA insurance covers 100 % of the outstanding balance on a mortgage for the full life of the loan. FHA insurance premiums are 1.50% of the original loan balance when the loan is granted, plus, for loans with a loan-to-value ratio over 90%, 0.5 % of the outstanding balance each year the loan is outstanding, payable monthly as part of the mortgage payment. The FHA premium is the same for middle income homebuyers and high-risk borrowers.

Private Mortgage Insurance (PMI)

Private mortgage insurance (PMI) companies were first established in the United States in the 1950s to provide an easier and lower cost private sector alternative to the government guaranty provided by the FHA. PMI will insure home mortgages with loan-to-value ratios of up to 103%. PMI does not insure 100% of the mortgage loan. Coverage ranges from 6% to 40 %, depending on the type of loan and the loan-to-value (LTV) ratio. Unlike FHA insurance, private mortgage insurance may not be required for the life of the loan, but can be terminated when the remaining balance achieves a specified loan –to-value ratio.

The cost of mortgage insurance is a function of the LTV, the borrower's credit score, the type of loan, i.e. fixed rate, adjustable rate or adjustable payment, the loan maturity and the insurance coverage ratio. The table below shows the premiums for an 80% LTV, 15 year fixed rate mortgage.

Private Mortgage Insurance in the U.S.
Premium Rates for a 15 Year, 80% LTV Mortgage

Insurance Coverage	Annual Premium Rate
30%	.41%
25%	.32%
20%	.28%
17%	.26%
12%	.21%
6%	.19%

Canada

Canadian Mortgage and Housing Corporation (CMHC)

The Canadian Mortgage and Housing Corporation (CMHC) operates a number of different programs: a mortgage guarantee program, guarantees of mortgage securities, direct lending and government housing assistance programs.

The mortgage guarantee program is the principal source of income for the CMHC. In FY 2003, the mortgage insurance program accounted for over 90% of CMHC's total net income. The table below shows the revenue and expense projections for the CMHC mortgage insurance program from 2003 to 2008. 2003 is actual, 2004 is estimated and 2005 to 2008 are forecast.

CMHC Mortgage Insurance Program
Revenues and Expenses

CAD and LE in millions

	Revenues		Expenses		Before Tax Income		After Tax Income	
Year	CAD	LE	CAD	LE	CAD	LE	CAD	LE
2003 *(actual)*	1,256	5,907	342	1,608	914	4,298	602	2,831
2004 *(estimate)*	1,471	6,918	279	1,312	1,195	5,620	806	3,790
2005	1,534	7,214	386	1,815	1,148	5,399	775	3,645
2006	1,662	7,816	363	1,707	1,269	5,968	856	4,026
2007	1,807	8,498	407	1,914	1,400	6,584	945	4,444
2008	1,985	9,335	429	2,018	1,556	7,318	1,050	4,938

The CMHC mortgage insurance program covers 100% of the amount of the loan and is available on loans for purchase, refinance and construction. Premiums are based on the loan-to-value ratio and are paid as an up-front fee when the loan is settled.

CMHC Mortgage Insurance Premiums

LTV	Purchase/ Construction *% of Loan Amt*	Refinance % of Increase to Loan Amount
≤ 65%	0.50%	0.50%
≤75%	0.65%	2.25%
≤ 80%	1.00%	2.75%
≤ 85%	1.75%	3.50%
≤ 90%	2.00%	4.25%
≤ 95%	3.25%	Not offered

Philippines

<u>Background</u>

The government of the Philippines has made a commitment to building a "strong and sustainable housing finance program with complementary support systems which will pump prime, build up and strengthen available resources of low cost and long term capital." (Comprehensive and Integrated Shelter Act of 1994, No. 7835) In fulfilling this commitment, the government has established a number of institutions charged with facilitating housing finance, particularly for low and moderate income households.

- Housing and Urban Development Coordinating Council (HUDCC): an umbrella organization responsible for policy making and coordination of government housing programs.

- National Housing Authority (NHA): principal authority for government construction of low income housing.
- Pag-IBIG Fund (Home Development Mutual Fund): national provident savings fund providing housing credit to members for home purchase, construction or improvement or refinancing. Development loans are extended to developers and project sponsors.
- Community Mortgage Program (CMP): through the NHMFC, to assist NGOs to acquire tenure and ownership of land occupied by squatter settlements and to provide financing for the purchase of the land by its occupants.
- National Home Mortgage Finance Corporation (NHMFC): to refinance or purchase home loans originated under other government programs.
- Home Guaranty Corporation (HGC): to provide mortgage default guarantees for home loans and project finance.

Home Guaranty Corporation (HGC)

History and Purpose

The Home Guaranty Corporation (HGC) is a government owned and controlled corporation established in 1950 to operate a credit guarantee program in support of the government's policy of expanding access to credit for home ownership. The Philippine government supports the HGC at every level of its operations. It has capitalized the corporation, guaranteed the HGC guarantees up to an amount equal to 20 times the HGC's capital and surplus and guaranteed bonds and other securities issued by the HGC. The government also has provided incentives to lending institutions to participate in HGC programs:

- Interest earned on loans is tax exempt up to the maximum interest rate;
- Interest earned on HGC bonds is tax exempt;
- Guaranteed mortgage loans held by banks carry a risk weight of 50% for capital adequacy purposes;
- Government guaranteed HGC bonds carry a risk weight of 0% for capital adequacy purposes;
- HGC guaranteed loans are exempted from the ceiling set by the Central Bank on total real estate portfolio holdings by banks.

The HGC is the only Philippine government institution that provides risk guarantees and fiscal incentives for housing credits extended by financial institutions. Since its inception, the HGC has expanded its guarantee programs. Today the HGC provides guarantees for home loans, development loans and securities backed by eligible mortgage portfolios or housing projects. As a result of these guarantee programs, the HGC has been successful in stimulating the flow of funds from the government and the private sector to housing finance.

Under its mandate, the HGC gives preference to housing finance for low and moderate income households. The Home Guaranty Corporation Act of 2000 mandates that the HGC allocate its guarantees according to the following schedule:

- At least 40% for social
- At least 30% for low-cost housing
- At least 20% for medium-cost housing
- No more than 10% for open housing

Funding Sources

The government initially capitalized the HGC at P 2.5 billion (LE 268 million). In 2000, the Home Guaranty Corporation Act increased the authorized capital of the HGC to P 50 billion (LE 5.4 billion), of which the government funded P 10 billion (LE 1.07 billion). The HGC funds its operations by issuing bonds and borrowing from the Central Bank and other financial institutions. The government unconditionally guarantees the principal and interest on HGC bonds and securities, provided that the total amount of bonds and securities outstanding does not exceed the aggregate amount of the principal obligations of all mortgages and other accounts guaranteed by the HGC. HGC bonds are tax-exempt and, by virtue of the government guaranty, are considered government of the Philippines obligations.

Participating Institutions (PI)

Commercial banks, trust companies, personal finance companies, mortgage companies, thrift banks, rural banks, building and loan associations, installment lending companies, insurance companies, the Government Service Insurance System, the Social Security System, the Development Bank of the Philippines and other government owned or controlled financing institutions are authorized to participate in HGC guarantee programs. There are fifty-two participating institutions: 23 commercial banks, 20 rural or thrift banks, 3 insurance companies, 2 building and loan associations and 4 other types of institutions. Government financing institutions also are authorized to purchase, sell or service guaranteed mortgages and to issue tax-exempt bonds and other securities against the security of guaranteed mortgages.

Guarantee Programs

The HGC offers two mortgage guarantee programs, a home loan guarantee program and a development loan guarantee program. Under both programs, the HGC guarantees of the timely payment: 1) of principal up to the specified guarantee coverage limit; and 2) of interest up to a statutory maximum interest rate. Interest earned up to the statutory maximum is tax exempt. The lender may charge a higher interest rate, but the guarantee and tax exemption apply only to interest charged up to the maximum limit. The loan guarantee programs provide more liberal limits for social and low cost housing to stimulate the flow of funds into these sectors of the market.

There are two forms of guarantee-cash guaranty and bond coverage. The cash guarantee entitles the guaranteed institution to receive a cash payment if the guarantee is called. Under the bond coverage guarantee, the guaranteed entity receives HGC debenture bonds as settlement of its guarantee call. The interest rate on the debentures is less than or equal to the interest rate on the guaranteed principal obligation.

Home Loan Guarantee Program

The home loan guarantee program provides coverage on loans/credit facilities extended by banks and other financial institutions for the purchase, construction or improvement of a single-family residence or for refinancing an existing loan. The HGC will guarantee home loans with maturities of up to 30 years according to the following terms:

Terms of the Home Loan Guarantee Program

Class of Housing	Maximum House Value (LE)	Loan-to-Value Ratio	Guarantee Coverage	Maximum Interest Rate Coverage & Tax Exemption	Guarantee Premium
Socialized	19,337 or less	100%	100%	11%	Cash - 1.25% Bond - 1.00%
Low Cost	Over 19,337 up to 53,714	90%	100%	10%	Cash - 1.30% Bond - 1.05%
Medium	Over 53,714 up to 214,856	80%	90%	9.5%	Cash - 1.40% Bond - 1.10%
Open	Over 214,856 up to 537,140	70%	85%	8.5%	Cash - 1.70% Bond - 1.50%

<u>Development Loan Guarantee Program</u>

The development loan guarantee program offers a guarantee facility covering loans extended for the development of subdivisions, townhouses, dormitories, apartments and other residential dwellings. The HGC will guarantee development loans for the development of subdivision projects and apartment and other rental housing projects consisting of at least 20 units. The terms of the development loan guarantee program are shown in the table below.

Terms of the Development Loan Guarantee Program

Class of Housing	Maximum House Value (LE)	Loan-to-Prudent Production Cost Ratio	Guarantee Coverage	Maximum Interest Rate Coverage & Tax Exemption	Guarantee Premium

Socialized	19,337 or less	100%	Cash - 60% Bond - 70%	11%	Cash - 2.00% Bond - 1.25%
Low Cost	Over 19,337 up to 53,714	90%	Cash - 60% Bond - 70%	10%	Cash - 2.25% Bond - 1.50%
Medium	Over 53,714 up to 214,856	80%	Cash - 60% Bond - 70%	9.5%	Cash - 2.50% Bond - 1.75%
Open	Over 214,856 up to 537,140	70%	Cash - 60% Bond - 70%	8.5%	Cash - 2.75% Bond - 2.00%

Hong Kong

Hong Kong Mortgage Corporation (HKMC)

<u>Background</u>

The HKMC was established by the Hong Kong SAR in 1997 as a secondary mortgage market institution. HKMC is well-capitalized, profitable and, as an instrumentality of the Hong Kong SAR, has an S&P/Moody's AA-/Aa3 local currency rating and an A+/A1 long term foreign currency rating. The HKMC was designed to address the concentration, liquidity and market risk of mortgage lending by commercial banks by purchasing mortgage loans from commercial banks, funded by bonds issued by the HKMC. Initially, the HKMC was a secondary mortgage market facility that purchased eligible mortgages from banks and issued bonds to fund its operations. The HKMC introduced its Mortgage Insurance Program (MIP) in 1999. More recently, the HKMC has initiated a mortgage-backed securities program.

The MIP has grown rapidly. As of the end of 2004, 27 banks were participating in the program and the total amount of mortgage loans insured exceeded HK$ 90 billion (LE 67 billion). Mortgage insurance volume increased by 88% from 2003 to 2004 and market penetration rose from 13.5% to 16%. In the first quarter of 2005, the MIP received 6,427 applications with a mortgage value of HK$ 13.65 billion (LE 10 billion).

<u>Financial Results</u>

As shown on the Statement of Income on the following page, the majority of the HKMC's revenue is generated by interest income on its loan and investment portfolios. In 2004 net interest income totaled HK$ 811.7 million (LE 606 million). Other income, consisting primarily of mortgage insurance premium income and income from financial guarantees of MBS, increased significantly in 2004, with HK$159.8 million (LE 119 million) generated from these sources, a 168 % increase over the HK$ 59.7 million (LE 44.6 million) earned in 2003.

Hong Kong Mortgage Corporation
Statements of Income

HK$ and LE in millions

	2004		2003	
	HK$	LE	HK$	LE
Income Statement				

Interest income	1,021.87	759.80	1,006.85	748.63
Interest expense	(210.16)	(156.27)	(85.43)	(63.52)
Net interest income	811.71	603.54	621.42	462.05
Other income, net	159.80	118.82	59.70	44.39
Operating expenses	(118.66)	(88.23)	(120.30)	(89.45)
Operating profit before provisions	852.85	634.13	561.08	417.19
Provisions for bad and doubtful loans	(89.44)	(66.50)	(149.37)	(111.06)
Operating profit	763.41	567.63	411.71	306.12
Net gain on disposal of investment debt securities	0.00	0.00	11.35	8.44
Profit before taxes	763.41	567.63	423.06	314.56
Taxes	(99.40)	(73.91)	(43.92)	(32.66)
Net profit	664.02	493.72	379.14	281.90
Performance				
Return on equity	17.1%		11.5%	
Capital to assets	9.4%		7.7%	
Cost to income (efficiency ratio)	12.2%		17.4%	
Market penetration	16.0%		13.5%	

MIP Premiums

The HKMC MIP does not guarantee the full amount of the loan. HKMC provides coverage of up to 25% of the property value, permitting lenders to offer up to 95% LTV loans. Insurance premiums can be paid in a single payment at loan closing or on an annual basis. The following table shows the current premium schedule.

HKMC MIP Insurance Premiums

LTV	Single Payment *% of Loan Amt (Depending on Loan Maturity of 10 to 30 Years)*	Annual Payment - Initial Year *% of Loan Amt (Depending on Loan Maturity of 10 to 30 Years)*	Renewal Payment- Until Loan Balance reaches 70% LTV *% of Loan Amt (Depending on Loan Maturity of 10 to 30 Years)*
Floating Rate Loans			
>70% and< 80%	1.00% to 1.65%	0.50% to .85%	0.24%
>80% and <85%	1.55% to 2.40%	0.70% to1.10%	0.45%
>85% and <90%	2.15% to 3.55%	0.90% to 1.65%	0.63%
>90% and <95%	2.48% to 3.98%	1.04% to 1.90%	0.73%
Fixed Adjustable Rate Loans			
>70% and< 80%	.95% to 1.55%	0.45% to 0.80%	0.24%
>80% and <85%	1.40% to 2.20%	0.65% to 1.05%	0.40%
>85% and <90%	2.01% to 3.38%	0.85% to 1.50%	0.59%
>90% and <95%	2.32% to 3.89%	0.98% to 1.73%	0.68%

Khazakhstan

Kazakhstan Mortgage Guarantee Fund (KMGF)

Background

The KMGF was established in December, 2003 with $5 million (LE 30 million) in capital provided entirely by the National Bank of Kazakhstan. The mortgage guarantee will permit lenders to make loans with up to a 90% loan-to-value ratio and extend mortgage maturities, which had been 3 years, to up to 15 years. The government of Kazakhstan believes that the introduction of a mortgage guarantee scheme will accelerate the growth of mortgage lending in the country. Projections for the KMGF are that the fund will guarantee 20,684 loans totaling $164.9 million (LE 955 million) during its first five years of operation.

Financial Projections

Since the KMGF has only recently become operational, so there are no financial data available. Forecasts for the first ten years of operation have been made. The forecast project that the KMGF will lose money for the first two years of operation. The third year will see a turnaround, with a small profit of about $23 million (LE 133 million), and the company will remain profitable in succeeding years.

KMGF Premiums

The KMGC and its advisors have designed a complex mortgage guarantee premium schedule, with the premium rate varying depending on a number of factors: loan-to-value ratio, insurance coverage ratio, loan maturity and single or annual premium. The KMGC offers insurance coverage of 25% to 50% of the loan amount, with loan-to-value ratios of 70% to 90% for loans of 3, 5, 7, 10 and 15 years. Premiums can be paid in a single payment or annually. Annex B shows details on the KMGC the premium schedule.

LIQUIDITY (REFINANCING) FACILITY FOR EGYPT

The Egyptian government is in negotiations with the World Bank for a Mortgage Market Development Project. Establishment of a liquidity facility is the central focus of the project. The liquidity facility will be the beneficiary of a $20 million credit facility. The World Bank and the Egyptian government may determine that the GSF is an appropriate candidate to house the liquidity facility, provided that the facility can be established as a separate legal entity under the GSF. Another option would be to amend the Real Estate Finance Law to authorize the MFA to administer the liquidity facility. The NHB in India is a possible model for this alternative.

Under the World Bank project guidelines, the liquidity facility would be organized as a profit-making corporate entity, with equity investment by Egyptian financial institutions. If it is decided that a new independent institution, rather than the GSF or the MFA, should be established, there may still be an opportunity for the GSF or the MFA to participate in the ownership and/or governance of the facility. Alternatively, the MFA could be the regulatory authority with jurisdiction over the facility.

The Role and Function of a Liquidity Facility

The liquidity facility as a funding mechanism for the primary mortgage market has a long-standing history in the United States and other countries. The main objective of any liquidity facility is to mobilize medium- to long- term funding from the capital market for residential mortgage lending. The facility issues bonds on its own credit to fund refinancing loans to eligible primary mortgage lenders. The facility may purchase mortgages with or without recourse or may extend collateralized credit. Liquidity facilities such as that planned under the proposed World Bank project help primary mortgage market lenders reduce their liquidity and market risks.

Recent Trends in Liquidity Facilities

The trend today is for liquidity facilities to diversify their secondary market operations to meet the changing needs of their financial institution participants. The SHF (and its predecessor FOVI) in Mexico extended refinancing credit for over 20 years, but will terminate the program by 2009. The NHB in India and the HKMC in Hong Kong began operations as liquidity facilities, but have diversified into guaranteeing mortgage backed securities. We see the same trend in the United States. Although the primary line of business at the Federal Home Loan Banks (FHLBs) remains refinancing credit, most FHLBs have introduced mortgage purchase programs. Even Cagamas in Malaysia, one of the most successful liquidity facilities in the developing world, is purchasing mortgages without recourse and, in October, 2004, launched Malaysia's first residential mortgage-backed securities (RMBS) through its wholly owned subsidiary Cagamas MBS. Cagamas MBS purchased RMI 1.8 billion (LE 2.76 billion) of the Malaysian government's staff housing loans for the securitization.

Examples of Successful Liquidity Facilities

Federal Home Loan Banks – U.S.

<u>Background</u>

The Federal Home Loan Bank System was established in 1932 as a liquidity facility for the newly created federally chartered savings and loan associations. Since that time, state chartered savings and loan associations, commercial banks and credit unions have been admitted to membership in the FHLB system. As of June 30, 2004, there were 8,083 financial institutions that were members of the FHLB system. The system consists of twelve regional Federal Home Loan Banks (FHLBs), separately established, managed and capitalized.

In order to access the funding and other services of the FHLBs, financial institutions must become members of the FHLB in their geographic region by purchasing stock in the FHLB. Members also must purchase additional shares over time proportional to the growth of their borrowing from the FHLB. In this manner, the member institutions maintain the capital of the FHLB. The FHLBs are supervised by the Federal Housing Finance Board.

Funding Sources

The FHLBs sell debt securities, primarily to institutional investors, to finance their operations. The FHLBs enjoy the benefit of an implicit government backing of their debt and FHLB securities are rated Aaa/AAA. Therefore, FHLBs can borrow at favorable interest rates which can be passed through on their loans to their members.

FHLB Credit Programs

Collateralized Advance (Refinancing) Program

The collateralized advance (refinancing) program is the most important FHLB activity. FHLB advances are collateralized by pools of a member institution's mortgages or specified other assets. As of December 31, 2004, the consolidated FHLB system had $581 billion (LE 3,473 billion) in advances outstanding, representing 63% of consolidated FHLB assets. The FHLBs offer many types of advance plans to respond to their members' needs. These range from short term (1 day to 1 year) programs to 30 year fully amortizing loans. Member institutions use FHLB advances as a regular source of funding for on-balance sheet mortgage assets and as a tool for asset-liability management.

Letter of Credit (LOC) Program

The FHLBs issue standby letters of credit (LOCs) on behalf of their members and approved "housing associates". Housing associates include nonmember financial institutions and state and local government housing finance agencies. All standby LOCs must be fully collateralized by the same types of collateral eligible to secure advances or by investment-grade obligations of state or local governments or agencies. FHLB standby LOCs are used to facilitate residential and economic development lending and to assist with liquidity, other funding and asset/liability management.

FHLB Mortgage Purchase Program

Since 1997, FHLBs have been purchasing mortgages from FHLB members. The FHLB mortgage purchase programs gives FHLB members an alternative to selling loans to Fannie Mae and Freddie Mac. As of the end of 2004, mortgage assets at FHLBs totaled $114 billion (LE 661 billion).

National Housing Bank (NHB) – India

The NHB mortgage refinancing program is the NHB's key mortgage market product. As of June 30, 2004, NHB had disbursed a total of Rs 132.1 billion (LE 17.5 billion) in refinancing credits. Annual refinancing volume has increased from Rs 10.2 billion (LE 1.35 billion) in FY 2001/2002 to Rs 32.5 billion (LE 4.3 billion) in FY 2003/2004.

Lending by the NHB
FY 1998/1999 to FY 2003/2004

	Refinance Loans		Direct Loans		Total Loans	
Fiscal Year	Rs (billions)	LE (billions)	Rs (millions)	LE (millions)	Rs (billions)	LE (billions)
2003 - 2004	32.53	4.31	444.90	58.96	32.97	4.37
2002 - 2003	27.10	3.59	730.60	96.83	27.83	3.69

2001 - 2002	10.24	1.36	1,122.50	148.76	11.36	1.51
2000 - 2001	10.03	1.33	745.10	98.75	10.78	1.43
1999 - 2000	8.42	1.12	505.00	66.93	8.92	1.18
1998 - 1999	7.47	0.99	271.30	35.96	7.74	1.03
Cumulative refinancing activity since 1988	132.25	17.53	3,853.50	510.70	136.11	18.04

Sources: NHB Annual Reports

The distribution of refinancing credit among the different classes of mortgage lending institutions over the last few years is shown in the following table:

Distribution of NHB Advances

Rs and LE in billions

	HFC			Banks			Cooperative Institutions		
Fiscal Year	Rs	LE	% of Total	Rs	LE	% of Total	Rs	LE	% of Total
2003 - 2004	18.46	2.45	56.98%	12.76	1.69	39.37%	1.18	0.16	3.65%
2002 - 2003	17.67	2.34	65.52%	7.90	1.05	29.30%	1.40	0.19	5.18%
2001 - 2002	7.05	0.93	70.50%	0.77	0.10	7.70%	2.19	0.29	1.66%
2000 - 2001	7.58	1.00	75.47%	1.06	0.14	10.53%	1.41	0.19	14.00%
Cumulative refinancing	91.65	12.15	69.30%	25.17	3.34	19.03%	15.44	2.05	153.80%

Sources: NHB Annual Reports

Canadian Mortgage and Housing Corporation Lending Program

In addition to its mortgage insurance program, CMHC operates a lending program. CMHC lends to mortgage institutions to fund their mortgage portfolios. As shown in the following table, the CMHC's lending program does not generate as much profit as its mortgage insurance program.

CMHC Lending Program

CAD and LE in millions

	2003		2002	
	CAD	LE	CAD	LE
Interest earned	1,069	5,027	1,100	5,173
Interest expense	1,004	4,722	1,100	5,173
Net interest income	65	306	1,048	4,929

Operating expenses	25	118	20	94
Total Expenses	1,016	4,778	1,070	5,032
Net income before taxes	53	249	30	141
Net income after taxes	35	165	14	66

Cagamas Berhad – Malaysia

Background

The National Mortgage Corporation of Malaysia, Cagamas Berhad (Cagamas) was established in 1986 as a secondary mortgage market liquidity facility and until the mid-1990s most of its activity was focused on funding home mortgage loans. Over the last 10 years, Cagamas has been diversifying its business to include funding of industrial property mortgages, Islamic housing finance, equipment hire-purchase receivables and credit card receivables. Cagamas is considered to be one the most successful secondary mortgage market institutions in developing countries.

Financial Results

As shown in the financial highlights on the following page, Cagamas has been operated on a sound financial basis. As of the end of 2004, Cagamas had total assets of RM 28.3 billion (LE 43.1 billion), total purchased mortgages of RM 13.6 billion (LE 20.7 billion and finance receivables of RM 11.7 billion (LE 17.9 billion) One of the fastest growing portfolios at Cagamas is Islamic financing, with RM 2.2 billion (LE 3.4 billion) outstanding in 2004. Cagamas had RM 26.7 billion (LE 40.8 billion) in bonds and notes outstanding. The company earned an 11% return on average equity and a 0.47% return on average assets.

Funding Sources

Cagamas funds its activities by issuing unsecured bonds and Islamic bonds and is one of the largest debt issuers in Malaysia. Cagamas debt securities are treated as government securities and receive an AAA rating by both Malaysian rating agencies. Cagamas debt securities receive preferential regulatory treatment that makes them attractive investments for commercial banks and insurance companies.

Refinancing Programs

Cagamas purchases loans and receivables on a full recourse basis. While Cagamas offers a nonrecourse purchase program, banks have been reluctant to sell loans on this basis because they do not want to remove good loans from their balance sheets.

Cagamas Berhad
Lending Activities

RM and LE in millions

	2004			2003		
	No. of Loans	RM	LE	No. of Loans	RM	LE
Finance companies	121,970	3,852.00	5,873.53	113,310	3,959.00	6,036.68

Commercial Banks	23,428	1,651.00	2,517.44	79,750	6,738.00	10,274.10
Islamic banking institutions	40,727	1,600.00	2,439.68	7,165	200.00	304.96
Other	1,151	63.00	96.06	3,649	215.00	327.83
Total	187,276	7,166.00	10,926.72	203,894	11,112.00	16,943.58

Cagamas Berhad
Financial Highlights 2003 - 2004

RM and LE in millions

	2004		2003	
	RM	LE	RM	LE
Balance Sheet				
Assets				
Mortgage loans	13,565.00	20,683.91	15,195.00	23,169.34
Hire purchase and leasing	11,732.20	17,889.26	11,235.80	17,132.35
Islamic financing debts	2,211.23	3,371.68	907.70	1,384.06
Total Assets	28,283.29	43,126.37	27,853.10	42,470.41
Liabilities				
Bonds and notes	26,737.35	40,769.12	26,433.20	40,305.34
Total Liabilities	27,026.77	41,210.42	26,717.10	40,738.23
Shareholders' Equity	1,256.52	1,915.94	1,136.10	1,732.33
Income Statement				
Interest income	1,119.13	1,706.45	1,030.70	1,571.61
Interest expense	940.74	1,434.44	872.77	1,330.81
Net interest income	178.40	272.02	187.92	286.54
Islamic operations income	3.64	5.56	2.52	3.84
Non-interest income	11.22	17.10	9.96	15.19
Total Income	193.26	294.68	200.40	305.58
Expenses				
General & administrative	5.39	8.22	4.26	6.49
Personnel	4.59	7.00	3.64	5.54
Total Expenses	9.98	15.22	7.89	12.03
Profit Before Tax & Zakat	183.30	279.49	192.50	293.52
Net Profit	131.27	200.15	138.30	210.88

FINANCIAL GUARANTEES AND SECURITIZATION

Possible Roles for the GSF

In the future, the GSF may be able to play a role in the development of the secondary mortgage market in Egypt by providing financial guarantees and/or facilitating securitization. Such programs have been successful in a number of countries: Canada, Mexico, India, Philippines and Hong Kong. If the Egyptian government believes that there is a possible role of the GSF and/or the MFA in capital market financing, this topic should be discussed with both the World Bank and USAID.

Financial Guarantee and Securitization Programs

Canadian Mortgage and Housing Corporation

The business of issuing financial guarantees for mortgage-related securities has been profitable for well-managed institutions that impose stringent underwriting criteria. Virtually every financial guarantor will require that the underlying home mortgages carry mortgage default insurance. The CMHC in Canada had an estimated CAD 78 billion (LE 367 billion) in guarantees in force as of 2004. The financial results of the CMHC securitization program are illustrative of the financial potential of financial guarantees of MBS.

CMHC Securitization Program
Revenues and Expenses

CAD and LE in millions

	2003		2002	
	CAD	LE	CAD	LE
Investment income	9	42	7	33
Premiums and fees	32	150	25	118
Total revenues	41	193	32	150
Operating expenses	5	24	5	24
Net claims and other expenses	(4)	(19)	(1)	(5)
Total Expenses	1	5	4	19
Net income before taxes	40	188	28	132
Income taxes	10	47	11	52
Net income	30	141	17	80

National Housing Bank - India

The NHB financial guarantee program offers a partial guarantee of up to 67% of timely payment of principal and interest on mortgage bonds issued by housing finance institutions (HFCs). The NHB receives a 75 basis point guarantee fee and requires 125% collateral cover. The NHB also has played a central role in the development of securitization of mortgage portfolios. The NHB creates a Special Purpose Vehicle (SPV) to which HFCs assign pools of home mortgages. The SPV issues Pass-Through Certificates to investors, with the SPV as issuer and the NHB as trustee on the issue. NHB SPVs issued ten mortgage-backed securities issues from 2000 to 2004. The NHB charges a trustee fee that has ranged from 11 basis points to 43 basis points on these issues.

The NHB securitization program has been an interim step to private securitization. The Securities and Contracts Act was amended to permit securitization in 2002, but did not specify that pass-through certificates were eligible for trading on the stock exchange. Financial institutions have issued mortgage and asset-backed bonds, but the volume has been limited. On February 28, 2005 the Indian government made clear that mortgage and asset-backed securities are tradable. According to newspaper reports, in the next 30 days over Rs 77 billion (LE 10.2 billion) were raised.

The expected explosion in issuance of mortgage-backed securities provides new opportunities for the NHB. The NHB is offering to issue financial guarantees to HFC issuers to raise their credit ratings to AAA. This is a critical service because in India, the securitization market is restricted to AAA rated securities. The other forms of credit enhancement an issuer could use are far more expensive than the NHB guarantee. The maiden guaranteed MBS issue was launched in March, 2005 through an NHB SPV. The NHB will charge a guarantee fee based on the cost difference between other forms of credit enhancement and the NHB guarantee.

Since 2000, the NHB of India has been authorized to form SPVs for the purpose of purchasing eligible loans from Indian housing finance companies and banks and issuing mortgage-backed securities. As of the end of 2004, there were 10 issues totaling almost Rs 6.5 billion (LE 884 million). The NHB charges a fee of 5 basis points of the pool value, payable monthly, for its services as a trustee of the issue. The NHB also bills through its actual costs for periodic audits and inspections.

Housing Guarantee Company - Philippines

The Housing Guarantee Company offers a facility for guarantee cover on mortgage-backed securities, mortgage bonds or on the receivables backing these securities.

Issuer of Social Housing Bonds

Another future potential activity for the GSF is to form another subsidiary that would purchase or lend against the security of mortgages from low and moderate income borrowers. For example, the loans originated by the National Bank of Egypt (NBE) under the new GSF subsidy program could be purchased by this new entity. The funds the NBE receives could then be re-lent for new low and moderate income mortgage loans.

The state housing finance agencies in the U.S. are good examples of programs that purchase targeted low- and moderate- income mortgage loans and issue bonds in the capital markets. State housing finance agencies are statutory bodies of their respective states. The state itself does not guarantee the debt securities issued by the agency, but there is a “moral obligation” on the part of the state to make investors in agency securities whole. Most state housing agencies do not issue mortgage-backed securities, but each bond issue is collateralized by a pool of mortgages.

The Utah Housing Corporation (UHC) is generally recognized as a well-managed housing finance agency. As of the end of 2004, the UHC held $756 million (LE 4.4 billion) in mortgages and had $1.2 billion (LE 6.95 billion) in mortgage revenue bonds outstanding. The HFC has always been profitable, but profitability varies from year to year depending on mortgage prepayments. The table below shows the UHC’s financial results for 2003 and 2004.

Utah Housing Corporation
Statement of Revenues and Expenses
US$ and LE in millions

	2004		2003	
	US$	LE	US$	LE
Operating revenues				
Interest on loans receivable	48.18	279.28	57.99	336.14
Interest on cash and investments	22.62	131.09	21.78	126.22
Other revenues	3.76	21.82	4.48	25.96
Net increase (decrease) in the fair value of investments	(3.23)	(18.73)	1.31	7.59
Total operating revenues	71.33	413.46	85.56	495.91
Operating expenses				
Interest	57.16	331.29	64.91	376.22
Salaries and benefits	3.03	17.56	2.77	16.07
General operating expenses	2.02	11.68	2.11	12.21
Loan servicing fees	2.09	12.13	2.57	14.90
Deferred cost amortization	4.75	27.56	5.67	32.87
Provision for loan loss	0.13	0.73	0.00	0.00
Depreciation	0.16	0.91	0.20	1.16
Total operating expenses	69.33	401.86	78.23	453.43
Operating income (loss)	2.00	11.60	7.33	42.48

SECTION III: POTENTIAL FUNDING SOURCES FOR THE MORTGAGE FINANCE AUTHORITY

The Mortgage Finance Authority (MFA) was established by the Real Estate Finance Law No. 148 or 2001 and Presidential Decree No. 277 of 2001 as an independent authority, now under the Ministry of Investment. The mission of the MFA is to foster the development of the Egyptian real estate finance market and regulate the non-bank participants in that market. The ability of the MFA to fulfill its mission is constrained by the lack of financial resources needed to develop and manage its operations.

AUTHORIZED FUNDING SOURCES

Article 6 of the Presidential Decree authorizes several sources of funding for the MFA:

1. The fees collected thereby according to the provisions of the Real Estate Finance Law and the enforcing decrees as issued.
2. Charges for the services performed by the Authority for those dealing with it, as shall be determined by its Board of Directors.
3. Local and foreign loans and grants approved by the Authority's Board of Directors, providing they shall be endorsed by the legally concerned authorities.
4. The financial appropriations to be allocated by the Authority in the general budget of the state.
5. Return on investment of the Authority's funds.

It should be noted that although the Real Estate Finance Law establishes money penalties for violation of the law and its executive regulations, these are not a funding source for the MFA. The law (Article 36) allocates the financial resources collected from penalties to the Guarantee and Support Fund (GSF).

As has been demonstrated in the analysis of funding sources for financial services regulatory authorities in other countries, the MFA can be funded primarily by fees and assessments paid by the entities it supervises, by fees for services it provides to financial institutions and other companies and organizations and, possibly, by loans and grants from USAID, the World Bank and other multi-lateral and bilateral aid organizations. Each of these funding sources will be examined and suggestions made for potential actions to increase revenues.

FEE REVENUE

The MFA licenses and supervises four classes of entities: mortgage companies, mortgage brokers, real estate appraisers and real estate legal agents who are responsible for administering foreclosures. Auditors of any regulated entity also must register with the MFA. Educational and training institutions that provide courses to meet the educational requirements for appraisers must be approved by the MFA. To date, the MFA does not have a sufficient number of licensed or registered entities to provide a base for self-funding fee assessments. Currently there are only 2 licensed mortgage companies, 180 mortgage brokers, 45 appraisers, 23 registered auditors and 2 approved providers of appraisal education courses. No information is available on the number of real estate legal agents. The fastest growth has been in mortgage broker licensees. Since appraisers must complete educational requirements before being licensed, the number of licensed appraisers can be expected to grow at a slower rate, but the number of appraisers in Egypt should reach international levels (1,000 or more) within the next 3 to 5 years.

The MFA 2004/2005 budget estimates that only LE 500,000 in revenue will be generated by services and fees, less than 30 percent of the estimated LE 1.9 million in current expenditures. The balance must be funded from the state budget. It is important for the MFA to explore ways to increase its fee revenues.

ADDITIONAL SOURCES OF FEE REVENUE

Rationalize MFA Fee Structure

The LE 5,000 or LE 10,000 licensing fees the MFA has established in the executive regulations (Article 29) for mortgage finance companies are consistent with international practices. However, the executive regulations do not provide for the assessment of fees for initial and renewal licensing/registration of mortgage brokers, appraisers, auditors, legal agents or appraiser education providers or annual fees for mortgage companies.

The MFA is not fully exploiting its fee revenue generation capability. For example, the MFA charges only LE 10 for a mortgage broker license application and LE 30 for application processing. These fees clearly are not high enough to cover the costs of processing an application. As has been demonstrated in the analysis of application and license fees charged by regulatory authorities in Egypt and other countries, the MFA can substantially raise the application and licensing fees for mortgage brokers. If the application and license fees for appraisers are as low as those for mortgage brokers, appraiser licensing fees also should be increased. Increasing application and licensing fees alone will significantly increase the revenue of the MFA, since these two categories of regulated entities have the largest number of licensees and are growing at the fastest rate. The Board of Directors of the MFA should develop a fee schedule to ensure that all regulated entities are paying their fair share of the costs of regulation and supervision. MFA fees should be consistent with the fees charged by the other Egyptian financial services regulatory authorities and international best practices.

New fee revenue can be generated from several sources:

- The MFA intends to establish a standard appraiser examination, for which it can assess an examination fee.
- A daily rate per person for on-site inspection of regulated institutions should be established.
- The MFA should consider an annual levy for mortgage lenders, mortgage brokers and appraisers in addition to a minimum base fee based on the annual volume of transactions.

Expand Revenue Base

In the near term, the MFA has limited options to expand its revenue base. The most productive initiative the Authority could undertake is to actively promote the licensed professions of appraisal and mortgage brokerage. Over the next several years, the MFA could increase its fee revenue by extending the MFA's licensing authority to new classes of entities and persons engaged in real estate activities. This will require amendment of the Real Estate Finance Law. Politically it may be difficult to expand the MFA's authority to include additional groups, since there probably will be industry resistance. Some of the classes of entities are:

- Real estate brokers and salespeople currently are not regulated by any regulatory authority. Requiring licensing of real estate brokers and salespeople would greatly increase fee revenue. As mortgage securitization develops, loan servicing companies may be established that should be licensed and supervised by the MFA.
- Companies, primarily developers, who offer installment sales financing for real estate purchase.
- Professional associations and SROs for regulated entities.
- Individuals and companies that offer financial advice on real estate financing.
- Escrow companies, if they are established
- Secondary mortgage market institutions

Charges for Services

Many regulatory authorities generate revenue by charging fees for the services they provide to regulated entities and the public. There are several areas where the MFA could charge for its services, once these functions have become operational.

<u>Publications, Data Services, Training</u>

When the MFA has developed its data collection and dissemination capabilities, it will be able to charge subscription fees. Other areas of fee generation could be training courses offered by the MFA, manuals for appraisal and lending, standard forms.

<u>Fees to Cover the Costs of Consumer Protection Services</u>

The MFA should consider assessing a separate fee to cover its costs of consumer information and education and complaint processing and adjudication. The FSA's Financial Ombudsman Scheme (FOS) in the U.K. provides a model. The FOS develops an annual fiscal budget for its services and designs a tariff schedule to generate the revenue to cover its expenses. The FOS assesses two classes of levy, a general levy assessed against a tariff base to cover its general operating expenses and a case fee to cover the costs of processing specific cases. The FY 2005/2006 FOS general levy and case fee schedule for mortgage lenders and mortgage arrangers is as follows:

General Levy:
Mortgage lenders - £0.0069 (LE 0.77) per account, with a minimum of £200 (LE 222)

Mortgage arrangers - £50 (LE 555)

Case Fee:
Standard case fee - £360/case (LE 3,998)
Special case fee - £475/case (LE 5,275)

Establish a Mortgage Finance Compensation Fund

Another option is to establish a mortgage finance compensation fund similar to the MISR for Clearing and Central Depository (MCSD) Settlement Guarantee Fund, provided that such a fund could be legally established. If authorization of the fund requires amendment of the law, it is unlikely that this option could be implemented within 6 to 12 months. The compensation fund would be utilized to settle claims up to a specified amount against licensed or registered entities that have committed fraud or violated the MFA rules and regulations. Each licensed or registered entity would pay an assessment into the fund, based on the number or value of their transactions. Many real estate and real estate finance regulatory agencies have established such funds. The interest earned on the assets held by the fund could provide an additional source of revenue for the Authority.

There are numerous international models for compensation funds. Several jurisdictions in Canada and the U.S. (e.g. Alberta, Canada and Utah) have established compensation funds to replace the bonding requirement for mortgage lenders and brokers. In the U.K. the Financial Services Compensation Scheme (FSCS) is a statutory independent fund created to be the last resort fund of customers of financial services firms regulated by the FSA. The FSCS can pay compensation to a claimant if the regulated firm is unable, or likely to be unable, to pay claims against it. The FSCS is accountable to the FSA and coordinates its activities with the FSA, but has a separate budget, organization and staff. The FCSC’s expenses consist of compensation and interest paid to claimants and management costs. The total FY 2005/2006 budget is £276 million. Like the FSA, the FSCS has designed rules, regulations and fee schedules for different classes of financial institution based on the projected number of claims from each class and amount of compensation paid. The FY 2005/2006 levy for mortgage brokers is £400,000, which will be allocated among the authorized entities on the basis of annual income earned (tariff base).

Local and Foreign Loans and Grants

Several international agencies provide funding for housing finance activities. However, most of these programs fund institutions involved in the primary and secondary mortgage markets, not regulatory authorities. Both the World Bank Mortgage Development Project and the USAID Egypt Financial Services Project include funds for technical assistance to implement prudential regulation of the mortgage market. However, as discussed below, there are opportunities to secure international funding for the Guarantee and Support Fund and any other secondary mortgage market institution that may be established. The World Bank already is offering to fund a liquidity facility to refinance home mortgages.

USAID Development Credit Authority (DCA)

<u>Background and Purpose</u>

The USAID Development Credit Authority (DCA) is a financing authority that supports country USAID Mission programs and objectives by offering loan and bond guarantees to private and public/private sector institutions. In Egypt, as in other countries, a DCA guarantee could be used in conjunction with the training and assistance furnished by the Egypt FS Project to build the capacity of mortgage finance institutions.

Financing Programs

DCA loan guarantees up to 50 percent of a lender's, or investor's, loss on principal. The guarantee can cover loans with maturities of 2 to 20 years and can be in local currency or U.S. dollars. To be eligible for the DCA loan guarantee program, a lender or investor must be a non-sovereign institution and a borrower must be a private sector enterprise or institution, a municipality or a sub-sovereign entity.

DCA offers four types of credit guarantees:

Loan Guarantees cover a single loan from a financial institution to a specific borrower for a specific activity. The loan guarantee program could be used in Egypt to guarantee: 1) individual mortgages; 2) the GSF mortgage guarantee on individual mortgages; and 3) bank warehousing lines of credit to mortgage finance companies.

Loan Portfolio Guarantees cover a pool of new loans from one financial institution to multiple borrowers. The loan portfolio guarantee could be used in Egypt to guarantee mortgage pools: 1) originated for sale in securitizations; 2) consisting of subsidized loans to low and moderate income borrowers; and 3) pledged as collateral for housing bonds or secured borrowing.

Portable Guarantees are granted to a borrower without a lender having been identified. Once a lender is identified, the portable loan guarantee becomes a loan guarantee. The portable loan guarantee program could be used by Egyptian banks and mortgage finance companies to help them secure financing.

Bond Guarantees cover the timely payment of principal and interest on debt securities. DCA bond guarantees are used in less sophisticated financial markets to support the development of the bond market. In Egypt, a DCA guarantee would greatly facilitate issuance of mortgage-related bonds and asset- and mortgage- backed securities.

Performance

From its inception in 1999 to 2004, DCA has entered into 114 guarantee agreements in 36 countries. Total credit of $855.8 million (LE 5.8 billion) has been made available through guarantees totaling $335 million. Seventeen percent of the total credit made available has been in the housing sector.

DCA guarantee activities have grown significantly in the last few years, reflecting the global need for private sector capital. In the year 2004 alone, DCA established 36 guarantees in 22 countries for a total guaranteed amount of $102.9 million (LE 596 million). The DCA guarantees supported $278.7 million (LE 1.6 billion) in credit made available. Only 3% of total credit made available was in the housing sector.

DCA Financed Housing Programs

Recent DCA Guarantee Programs for Housing Finance

Country	Local Partner	Purpose	DCA Program	Amount
Croatia	PBZ Bank	Extend mortgages in war-	Loan Guarantee	$20 million

		affected areas		
Kazakhstan	Lariba Bank	Mortgage-backed bond	Bond Guarantee	$1 million
Morocco	BMCE	Mortgages for low-income households	Loan Portfolio Guarantee	$5 million
Morocco	Zakoura	Mortgages for low-income households	Portable Guarantee	$2 million
Morocco	Al Amana	Mortgage and home improvement lending to low income households	Portable Guarantee	$5 million
Romania	Raiffeisen Zentralbank	Onlending loan to fund mortgages	Loan Guarantee	$7 million
Russia	Deltacredit Bank	Onlending loan to fund mortgages	Loan	$125 million
South Africa	Home Loan Guaranty Company (HLGC))	Finance housing for HIV-positive homeowners	Loan Guarantee	$ 100 million

Overseas Private Investment Corporation (OPIC)

Background and Purpose

The Overseas Private Investment Corporation (OPIC) is an agency of the U.S. government. OPIC's purpose is to foster economic development in new and emerging markets and help U.S. businesses invest in other countries by assuming some of the investment risk. OPIC "supports, insures and finances investment projects with substantial U.S. participation that are financially sound, promise significant benefits to the social and economic development of the host country and foster private initiative and competition." Egypt is eligible for OPIC programs and several have been undertaken in the last few years. According to the President of OPIC, for 2005 and 2006 OPIC is giving a high priority to projects in the Middle East and Africa.

Financing Programs

OPIC can provide medium- and long- term funding through direct loans and loan guarantees on either a project or a corporate finance basis. OPIC can guarantee or lend from $100,000 to $250 million per project. Generally, to be eligible for OPIC financing, less than 50% of the voting shares of a company should be held by the government of the host country. However, financing can be arranged with a government-owned entity if it is contractually agreed that management will remain in private hands and there is significant direct U.S. involvement. Guarantees are provided only to U.S. companies.

OPIC Financed Housing Programs

For the last 3 years, OPIC has begun to focus more on housing and housing finance projects because it is a sector in which OPIC resources can be leveraged to mobilize private capital. The following table on the following page presents some recent OPIC funded housing finance programs.

Recent OPIC Funding for Housing Finance

Country	Local Partner	Purpose	OPIC Program	Amount
Bosnia	Roumel Development Corp.	Build 700-800 apartments	Loan	$2.5 million
Guatemala	Mercury Mortgage Finance	Acquire and securitize home mortgages	Financial insurance	$10 million
Guatemala	Mercury Mortgage Finance	Guarantee mortgage-backed security	Guaranty	million
Nicaragua	New refinancing (liquidity) facility	Fund refinancing activities	Loan	$30 million
Russia	Deltacredit Bank	Onlending loan to fund mortgages	Loan	$125 million
Rwanda	Bank of Commerce, Development and Industry	Onlending loan to fund mortgages	Loan	$ 10 million
South Africa	Housing for HIV (jv partner Home Loan Guaranty Company (HLGC))	Finance housing for HIV-positive homeowners	Loan	$250 million
South Africa	National Urban Reconstruction Agency	Bridge financing	Loan guarantees	$20 million (initial)
Ukraine	International Mortgage Bank	Onlending loan to fund mortgages	Loan	$30 million
Zambia	Houses for Africa Mortgage Finance	Onlending loan to fund mortgages	Loan	$46.3 million

International Finance Corporation (IFC)

The International Finance Corporation (IFC) is an instrumentality of The World Bank. The IFC makes equity investments in companies (e.g. EHFC in Egypt) and provides clients with financing alternatives that would not otherwise be available or cost effective. The IFC's structured finance group offers credit enhancement for debt securities through partial credit guarantees, risk sharing facilities and participations in securitizations. The IFC has been involved in supporting housing finance in a number of countries by providing equity investment, financing or credit enhancement to mortgage lenders, mortgage insurers and secondary mortgage market institutions. The table below presents information on mortgage finance related IFC projects approved in 2004 and year-to-date 2005.

IFC Mortgage Finance Projects
2004 - YTD 2005

Country	Local Partner	Purpose	IFC Program	Amount
Bosnia	Raffeinsen Bank	Onlending loan to fund mortgages	Loan	EUR 12 million
Croatia	PBZ Bank	Onlending loan to fund mortgages	Loan	EUR 50 - 100 million

Mexico	GMAC Financeria	Finance mortgage originations	Mortgage warehouse line of credit	$150 million
Mexico	Hipotecaria Su Casita	Finance mortgage originations	Mortgage warehouse line of credit	$ 50 million
Oman	Alliance Housing Bank	Onlending loan to fund mortgages	Loan	$45 million
Panama	La Hipotecaria	Onlending loan to fund mortgages	Loan	$35 million
Philippines	National Housing Mortgage Finance Corporation (NHMFC)	Facilitate sale of nonperforming assets	Loan and guarantee	$29 million
Philippines	Filinvest Land Inc.	Onlending loan to fund mortgages	Loan	$40 million
Uganda	DFCU	Finance medium to long term projects, leases and mortgage portfolio	Loan	$10 million
Ukraine	International Mortgage Bank	Onlending loan to fund mortgages	Loan	$7 million

GSF as a Potential Funding Source for the MFA

How can the MFA benefit financially from expanded activities in the GSF? There are four basic options:

- MFA is given supervisory authority over GSF programs
- MFA provides management and technical services for a fee
- GSF becomes a subsidiary of MFA
- MFA is a shareholder

MFA as Supervisory Authority

The MFA could be given supervisory authority over the GSF mortgage insurance and secondary market programs. Given the conflict of interest, the mortgage insurance program might be more appropriately supervised by EISA. The MFA could receive regulatory fees based on the volume of insurance/ guarantee contracts or, in the case of a secondary mortgage market facility, the volume of loans financed.

MFA as Service Provider

Once the MFA's organizational, managerial and operational capabilities have been fully developed, the MFA could provide management and technical services to the GSF under a service agreement. This option is not feasible in the short-run because the MFA is not fully operational itself. Outsourcing some of its management and technical functions to the MFA would reduce the GSF's operating costs. Services could include application review and analysis, data collection and dissemination and public education and information.

In the initial few years of operation, the GSF programs can be expected to sustain losses. When the operations become profitable, the MFA may not be able to share in the GSF's earnings, unless the service agreement provides for profit-sharing. The premiums collected under a GSF mortgage guarantee program would have to be retained, at least to the extent needed to fund its reserves. Income generated by secondary mortgage market operations also would have to be retained to the extent required to maintain financial integrity. Even if profits were distributed, the government probably would allocate any surplus to the GSF's subsidy program rather than the MFA.

GSF becomes a subsidiary of the MFA

Although, placing a restructured GSF under the MFA would provide the largest financial benefit to the MFA, this structure raises some concerns, particularly if the GSF offers financial guarantees as well as mortgage guarantee/insurance. Other than the National Housing Bank in India, mortgage finance regulatory authorities in other countries are not directly involved in mortgage insurance or mortgage market financing activities. The situation is different for Central Banks. In Kazakhstan, Hong Kong, Malaysia and Jordan, the Central Bank holds all or a majority of the shares in their respective countries' mortgage financing facilities and in Kazakhstan, the Central Bank is the sole shareholder of the Kazakhstan Mortgage Guarantee Fund.

There are good reasons for not having the authority that regulates an industry also depend on that industry as its major source of revenue. A regulator that determines that a regulated institution is operating in an unsafe and unsound manner and should be closed may be reluctant to take vigorous enforcement action if the institution is a major client of the authority's subsidiary financing institution.

The experience of the United States demonstrates the potential dangers of mixing regulation with financing. Prior to the savings and loan crisis in the U.S. in the 1980s, the Federal Home Loan Bank (FHLB) System was the primary regulator, the deposit insurer and the liquidity facility for the nation's savings and loan industry. In the aftermath of the collapse of the industry, government policy-makers determined that a major contributor to the crisis was the commingling of regulation and financing at the district banks. As a result, the regulatory functions of the FHLB System were transferred to a new regulatory authority – the Office of Thrift Supervision- in the Department of the Treasury and the deposit insurance fund was merged with the bank deposit insurance fund.

The MFA's situation in Egypt differs from that of the FHLB in the U.S. in that the mortgage finance companies the MFA regulates may not become the major source of mortgage finance in Egypt. Since banks are under the supervision of the Central Bank, there would be no conflict of interest for the MFA to offer financing or guarantees to banks. The MFA also would gain influence over the banks in terms of requiring prudent loan underwriting, loan documentation and collection practices and procedures.

As is the case with the service agreement option, this option is not feasible in the short term because the MFA itself is still in the organization process. It may be a year or more before the MFA could be in the position to take on additional responsibilities.

MFA as Shareholder

The GSF could spin off its mortgage insurance and mortgage financing departments as one or two separate government-owned or public/private corporations. The MFA and perhaps the Central Bank, other governmental institutions and private sector financial institutions could become shareholders. The MFA would receive dividend income on its investment. The MFA’s investment in such institutions would have to be funded by an appropriation from the state budget.

ANNEX A
SURVEY OF REGULATORY FEES

State Regulatory Fees - U.S.

	California	Illinois	Maine	Maryland	Michigan
Application processing fees					
Mortgage Company	580	8,695		580	2,608
Mortgage Broker	580	8,695		580	2,608
Loan Originator		2,075			
Loan Servicer	580				2,608
Appraiser	1,739	1,159-1,739	290		203
Initial license/registration fee					
Individual					
Mortgage Broker	5,217	6,956	1,159	5,796	2,608
Loan Originator		580			
Appraiser	License = 2,231 Certification = 2,666	1,739 – 3,188	1,739	License = 869 Certification = 1,014	1,014
Company					
Mortgage Company	5,217	6,956	1,449	5,796	3,478
Mortgage Broker	5,217	6,956	1,449	5,796	2,608
Loan Originator		580			
Loan Servicer	5,217				4,347
Appraiser	License = 2,231 Certification = 2,666	1,739 – 3,188	1,739	License = 869 Certification = 1,014	1,014
Annual/Renewal Fees					
Individual				5,796	
Mortgage Broker	Pro rata based on value of loans originated Minimum = 5,795 Maximum = 28,982	15,650	580 + .01% of loan volume		0-5 loans = 2,608 >5 loans = 2,608 +11.59/loan
Loan Originator					
Appraiser	License = 3,102 Certification = 3,536	1,739 – 3,188	1,739	1,159	2,029
Company					
Mortgage Company	Pro rata based on value of loans originated Minimum = 5,795 Maximum = 28,982	15,650	580 + .01% of loan volume	5,796	0-5 loans = 2,608 >5 loans = 2,608+11.59/loan
Mortgage Broker	Pro rata based on value of loans originated Minimum = 5,795 Maximum = 28,982	15,650	580 + .01% of loan volume	5,796	0-5 loans = 2,608 >5 loans = 2,608+11.59/loan
Loan Originator					
Loan Servicer	Pro rata based on value of loans serviced Minimum = 5,795 Maximum = 28,982				0-5 loans = 2,608 >5 loans = 2,608+11.59/loan
Appraiser	License = 3,102 Certification = 3,536	1,739 – 3,188	1,739	1,159	2,029
Branch office		1,449	580	5,796	

State Regulatory Fees - U.S.

	Minnesota	Mississippi	Nevada	New Mexico	New York
Application processing fees					
Mortgage Company			8,695		5,796
Mortgage Broker			8,695		2,898
Loan Originator					
Loan Servicer					
Appraiser		1,304	580		1,739
Initial license/registration fee					
Individual					
Mortgage Broker	4,957	4,347	5,796	2,319	2,898
Loan Originator		580			
Appraiser	869 – 1,159	2,173	Residential = 1,681 General = 2,261		1,739
Company					
Mortgage Company	4,957	4,347	5,796	2,319	5,796
Mortgage Broker		4,347	5,796	2,319	2,898
Loan Originator		580			
Loan Servicer	5,796				
Appraiser		2,173	Residential = 1,681 General = 2,261		1,739
Annual/Renewal Fees					
Individual					
Mortgage Broker	2,608	2,753	2,898	1,739	2,898
Loan Originator		580			
Appraiser		1,884	Residential = 1,681 General = 2,261		1,739
Company	2,608				
Mortgage Company	2,608	2,753	2,898	1,739	5,796
Mortgage Broker		2,753	2,898	1,739	2,898
Loan Originator		290			
Loan Servicer	2,898				
Appraiser	580 - 869	1,884	Residential = 1,681 General = 2,261		1,739
Branch office			Application = 232 Initial = 348 Renewal = 580	580	Mortgage company = 2,898 Mortgage broker = 1,449
Examination fee			348 / hour		

State Regulatory Fees - U.S.

	North Carolina	Pennsylvania	Rhode Island	Utah
Application processing fees				
Mortgage Company			3,188	
Mortgage Broker			1,594	
Loan Originator				
Loan Servicer				
Appraiser	869	1,362	1,159	
Initial license/registration fee				
Individual				
Mortgage Broker	5,796	2,898	1,159	1,368
Loan Originator				
Appraiser	1,159	1,304	1,159	2,319
Company				
Mortgage Company	5,796	2,898	1,159	1,449
Mortgage Broker	5,796	2,898	1,159	1,449
Loan Originator				
Loan Servicer				
Appraiser	1,159	1,304	1,159	2,319
Annual/Renewal Fees				
Individual				
Mortgage Broker	2,898	2,029	1,159	788
Loan Originator				
Appraiser	1,159	1,304	1,159	2,318
Company				
Mortgage Company	2,898	2,029	1,159	1,466
Mortgage Broker	2,898	2,029	1,159	1,466
Loan Originator				
Loan Servicer				
Appraiser	1,159	1,304	1,159	2,318
Branch office	580	Initial = 2,898 Renewal = 2,029		

State Regulatory Fees - U.S.

	Vermont	West Virginia	Wisconsin
Application processing fees			
Mortgage Company			
Mortgage Broker			
Loan Originator			
Loan Servicer			
Appraiser	725		
Initial license/registration fee			
Individual			
Mortgage Broker		2,029	4,347
Loan Originator	1,449		
Appraiser	638	1,101 – 1,261	638
Company			
Mortgage Company	5,796	7,245	5,796
Mortgage Broker	1,449	2,029	4,347
Loan Originator			
Loan Servicer			
Appraiser	638	1,101 – 1,261	638
Annual/Renewal Fees			
Individual			
Mortgage Broker	1,449	2,029	4,347
Loan Originator			
Appraiser	1,594	1,101 – 1,261	638
Company			
Mortgage Company	5,796	7,245	5,796
Mortgage Broker	1,449	2,029	4,347
Loan Originator			
Loan Servicer			
Appraiser	1,594	1,101 – 1,261	638
Branch office			

Regulatory Fees in
U.K., Canada, Denmark and Norway

	U.K. FSA	Canada: British Columbia	Canada: Saskatchewan	Canada: Manitoba	Canada: Ontario	Denmark	Norway
Initial license fees							
Individuals							
Mortgage Broker	By annual income 12,216 - 272,085	4,700	705	353	1,293		
Loan originator							
Companies							
Mortgage company	By gross loan volume 12,216 - 272,085	4,700	4,700	1,645	1,293		
Mortgage Broker	By annual income 12,216 - 272,085	4,700	705	353	1,293		
Per branch		940					
Annual/Renewal license fees							
Mortgage Company	Minimum fee = 2,221 Per No. of Mortgages = 23.1 - 0.44	4,700	Total assets < LE 58 million = 9,400 Total assets >= LE 58 million = 35,250	1,645	1,293	Pro rata for each company based on 13.2% of the difference between total expenses and statutory fees Minimum fee = 2,016	.0024% of mortgage company assets
Mortgage Broker	Minimum Fee = 1,110 Per 11,105 in Annual Income = 0.89-8.22	4,700	705	353	1,293		
Other fees							
Inspection fee			470/hour	353			

ANNEX B
REPRESENTATIVE MORTGAGE INSURANCE PREMIUMS

Summary of Premiums for a 15-Year Mortgage
Representative Mortgage Insurance Programs 50% to 100% Coverage

	Premium Paid at Settlement		Annual Premium		
	Premium % of Original Loan Amount	Amt per LE 10,000	Premium % of Original Loan Amount (Annual)	Annual Amt per LE 10,000	Amt Paid Monthly
100% Coverage					
CMHC - Canada					
90% LTV	2.00%	200			
85% LTV	1.75%	175			
80% LTV	1.00%	100			
FHA - U.S.					
90% LTV	1.50% at settlement plus 0.5% annually	150 at settlement plus 50/year (4.17/mo)			
≤90% LTV	1.50%	150			
HGC – Philippines (Home Loans	.				
100% LTV – Socialized Housing	1.25%	125			
90% LTV – Low Cost Housing	1.30%	130			
HGC – Philippines (Residential Development Loans) †					
60%/70% Socialized Housing	2.00%	200			
60%/70% Low Cost Housing	2.25%	225			
60%/70% Medium Cost Housing	2.50%	250			
60%/70% Open Market Housing	2.75%	275			
90% Coverage					
HGC – Philippines 80% LTV – Medium Cost Housing	1.40%	140			
85% Coverage					
HGC – Philippines ≤70% LTV – Open Market Housing	1.70%	170			
50% Coverage					
KMGF - Kazakhstan *					
90% LTV	3.79%	379	0.66%	66	5.50
85% LTV	3.11%	311	0.54%	54	4.50
80% LTV	2.53%	253	0.44%	44	3.66
75% LTV	2.34%	234	0.41%	41	3.41
70% LTV	2.17%	217	0.38%	38	3.16

* *KMGF offers both a single premium and an annual premium program*
† *Term of development loan is the time to complete the project*

Summary of Premiums for a 15-Year Mortgage
Representative Mortgage Insurance Programs
30% to 40% Coverage

	Premium Paid at Settlement		Annual Premium		
	Premium % of Original Loan Amount	Amt per LE 10,000	Premium % of Original Loan Amount (Annual)	Annual Amt per LE 10,000	Amt Paid Monthly
40% Coverage					
KMGF - Kazakhstan *					
90% LTV	3.26%	326	0.57%	57	4.75
85% LTV	2.71%	271	0.47%	47	3.91
80% LTV	2.25%	225	0.39%	39	3.25
75% LTV	2.10%	210	0.37%	37	3.08
70% LTV	1.96%	196	0.34%	34	2.83
35% Coverage					
KMGF - Kazakhstan *					
90% LTV	3.00%	300	0.52%	52	4.33
85% LTV	2.52%	252	0.44%	44	3.66
80% LTV	2.11%	211	0.37%	37	3.08
75% LTV	1.98%	198	0.34%	32	2.83
70% LTV	1.86%	186	0.32%	32	2.66
30% Coverage					
Private Mortgage Insurers - U.S.					
90% LTV			0.49%	49	4.08
≤85% LTV			0.41%	41	3.42
AIG United Guaranty - Europe					
90% LTV			0.49%	49	4.08
KMGF - Kazakhstan *					
90% LTV	2.73%	273	0.48%	48	4.00
85% LTV	2.32%	232	0.40%	40	3.33
80% LTV	1.97%	197	0.34%	34	2.83
75% LTV	1.86%	186	0.32%	32	2.66
70% LTV	1.75%	175	0.31%	31	2.58

** KMGF offers both a single premium and an annual premium program*

Summary of Premiums for a 15-Year Mortgage
Representative Mortgage Insurance Programs
25% Coverage

	Premium Paid at Settlement		Annual Premium		
	Premium % of Original Loan Amount	Amt per LE 10,000	Premium % of Original Loan Amount (Annual)	Annual Amt per LE 10,000	Amt Paid Monthly
GE Mortgage Insurance - Canada					
90% LTV	1.25%	125			
85% LTV	1.05%	105			
80% LTV	0.70%	70			
Private Mortgage Insurers - U.S.					
90% LTV			0.41%	41	3.42
≤85% LTV			0.32%	32	2.67
AIG United Guaranty - Europe					
90% LTV			0.41%	41	3.42
≤85% LTV			0.32%	32	2.67
HKMC - Hong Kong *					
90.01% - 95% LTV	2.88%	288	First year = 1.26% Renewal = 0.73%	First year = 126 Renewal = 73	First year = 10.50 Renewal = 6.08
85.01% to 90% LTV	2.34%	234	First year = 1.03% Renewal = 0.59%	First year = 103 Renewal = 59	First year = 8.58 Renewal = 4.92
80.01% to 85% LTV	1.70%	170	First year = 0.75% Renewal = 0.40%	First year = 75 Renewal = 40	First year = 6.25 Renewal = 3.33
70.01% to 80% LTV	1.10%	110	First year = 0.55% Renewal = 0.24%	First year = 55 Renewal = 24	First year = 4.58 Renewal = 2.00
KMGF - Kazakhstan *					
90% LTV	2.46%	246	0.43%	43	3.58
85% LTV	2.12%	212	0.37%	37	3.08
80% LTV	1.83%	183	0.32%	32	2.66
75% LTV	1.74%	174	0.30%	30	2.50
70% LTV	1.65%	165	0.29%	29	2.41

** HKMC and KMGF offer both single premium and annual premium programs*