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ENHANCEMENT OF CREDIT POLICY AND PROCEDURES OF EL TAAMIR MORTGAGE FINANCE COMPANY

EGYPT FINANCIAL SERVICES PROJECT
TECHNICAL REPORT #49

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DATA PAGE

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

KRA: KRA 1.1: Strengthen MFA's Institutional
Capacity to Supervise the Real Estate
Finance Industry in Egypt

KRA 1.4: Stable Term Funding Established
and Loans Originated

Activity: Activity 1.4.1.1: Capacity building of mortgage
finance companies

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SCOPE OF WORK

This report is a part of the ongoing series of activities supported by USAID's Egypt Financial Service Project Task 1 (EFS) to establish the supporting framework for the real estate finance industry. The Scope of Work was broadly defined as "Enhancement of Credit Policy and Procedures of Mortgage Finance Company."

Jane H. McNeil, an independent consultant, was engaged by Chemonics International to conduct this study on behalf of USAID. Input and assistance were provided by Kevin O'Brien, EFS Senior Real Estate Advisor; Amal Ezz El-Din, EFS Senior Financial Advisor; Manal Shalaby, EFS Senior Financial Advisor; Shamsnoor Abdul Aziz, EFS Senior Legal Advisor; and Aser Obeid, EFS Research and Training Assistant.

The General Task was to "help El Taamir Mortgage Finance Company (El Taamir) develop credit manuals, credit policies and internal regulations and procedures."

Specific Tasks as set forth in the Scope of Work were to:

1. draft a credit manual with credit policies, internal regulations and procedures
2. recommend an audit regime to test compliance and confirm that internal policies and procedures are in compliance with those issued by the Mortgage Finance Authority (MFA) and Central Bank of Egypt (CBE)
3. revise written job descriptions
4. review, inspect and analyze current work flow charts
5. train EFS and El Taamir staff in the use and application of the credit manual
6. meet with Egyptian Housing Finance Company (EHFC) to determine to what extent this mortgage finance company has a credit manual suitable for compliance with regulations and compatible with best practices and make recommendations on changes that should be made.

Deliverables as set forth in the Scope of Work were:

1. Draft Report covering:
 - a. Assessment of the credit department functions (credit process) identifying credit related issues within the department
 - b. Recommended written credit manual, policies, internal regulations, procedures and audit regime
 - c. Action plan for implementing recommendations
 - d. Revised job descriptions
 - e. Summary of training conducted
2. Presentation of the report to El Taamir board members, the MFA Chairman and Deputy Chairman
3. Final report incorporating comments made by EFS, El Taamir Chairman and management and MFA Chairman and Deputy Chairman
4. Summary of recommendations for EHFC

EL TAAMIR COMPANY

El Taamir Company (Taamir) is the first Egyptian mortgage finance company and one of two in the Arab Republic of Egypt and was formed in February, 2004. It is 97% owned by entities of the government of the Arab Republic of Egypt. Following is the specific ownership.

- 20% National Bank for Investments
- 15% New Urban Community Authority
- 14% Housing and Development Authority
- 10% National Company for Building and Development
- 10% Awqaf Egyptian Authority
- 7% Egyptian Company for Reinsurance
- 7% El Charq Insurance Company
- 7% Misr Insurance Company
- 4% Ahlya Insurance Company
- 2% Misr Iran Bank
- 1.2% Arabic Company for Real Estate Projects
- 2.8% 4 private Egyptian companies

Its headquarters and retail office are located at 12 Syria Street, Mohandessin, Cairo. Its website is www.taamirmortgage.com.

Through February, 2006, the Company had funded 155 mortgage loans totaling approximately 23 million Egyptian pounds. Of that total, 1.5 million Egyptian pounds were for commercial property (small shops and a fast food restaurant), and 1.2 million Egyptian pounds were for construction or improvement of free standing houses. The remaining 20.3 million Egyptian pounds were for the purchase of existing free standing houses and apartments.

METHODOLOGY

Methods used to comply with the requirements of the Scope of Work included:

1. meetings with El Taamir Vice Chairman and department managers.
2. interviews with El Taamir staff members from Commercial, Credit, Finance, Legal and Engineering departments.
3. discussions with EFS international and local staff members.
4. thorough study of El Taamir's existing credit manual, "The General Framework of Finance Policies" (undated).
5. meeting with Chairman and Deputy Chairman of Mortgage Finance Authority.
6. review of reports and recommendations presented to EFS by consultants engaged for previous studies and assessments.
7. follow-up discussions with El Taamir Vice Chairman, department managers and staff to finalize Credit Policy and Credit Procedures (Credit Manual).
8. training on writing job descriptions.
9. training on use and implementation of the Credit Policy and Credit Procedures.

EFS local staff members participated in all meetings and interviews.

Interviews were conducted with (in department order):

- Khaled El Abrikgy, Internal Audit Deputy General Manager
- Nancy Radwan, Commercial – Customer Services
- Marwan Morsy, Commercial – Funding
- Abdalla Roshdy, Credit Deputy General Manager
- Emad Ahmed, Credit – Credit Analysis
- Osama Esmat, Engineering – Investigation
- Ibrahim Abdelmoneam, Engineering – Investigation
- Walid Mosaad, Engineering Deputy General Manager
- Tarek Zohour, Finance Assistant General Manager
- Ahmed Mohamady, Finance – Accounting
- Hisham Fahim, Finance – Accounting
- Samar Fayez, Finance – Audit
- Mohamed El Kahki, IT Deputy General Manager
- Ashraf Darwish, Legal Deputy General Manager

STANDARDS FOR RECOMMENDATIONS

Generally, mortgage loans are regarded as a commodity, in that they can be sold in an established market. Consequently, there are universal guidelines for their creation. Recommendations resulting from this project reflect practices that are standard in markets in which there is an established mortgage finance industry, including developing and developed countries.

ASSESSMENT OF CREDIT PROCESS

In a report dated August 10, 2005 that discusses a study conducted by ShoreBank Advisory Services' consultant, Natalya Klimova, for EFS Project Task 1, the following recommendations regarding strengthening of El Taamir's credit function were presented:

- Classroom and on-the-job training for Loan Officers
- Development of written operations policy and procedure manuals.

Subsequent to this study, EFS sponsored a training course entitled Egyptian Primary Mortgage Market Course: Introduction to the Real Estate Finance Industry. The course was developed by the Mortgage Bankers Association of America and local experts, and the training was coordinated by the Egyptian Banking Institute and the Egyptian Mortgage Association. The course was offered to mortgage finance companies and banks. A few El Taamir staff members attended this training. Additionally, one El Taamir staff member attended train-the-trainer training for the course. During 2006, EFS projects the development of four additional mortgage financing courses and appraisal training for lenders.

Skills and Knowledge of Staff

El Taamir does not have loan officers, as such, but rather people in various departments who perform specifically defined tasks in the credit process, independently of each other. (See *Addendum I - Organization Chart.*) Either they had the requisite skills and knowledge required to perform their tasks or they learned through on-the-job training. In many instances, the tasks are performed according to checklists.

Specialists in Customer Services, Operations, Investigations and Funding perform tasks that can be learned on the job. Credit Analysts formerly worked for banks in similar functions and are experienced loan officers. Lawyers staff the Legal Department, accounting specialists work in Finance, and the Internal Auditor is an experienced auditor. The appraiser is Certified by the Mortgage Finance Authority.

For purposes of this report, the "credit process" includes all steps required to take a Loan Application from inception to either rejection or approval, closing and post-closing administration and monitoring. The process involves specialists from various departments in the following order.

Origination through Closing

- Commercial Department – Customer Services
- Commercial Department – Operations
- Legal Department – Documents Review
- Engineering Department – Investigation
- Engineering Department – Appraisal
- Credit Department – Credit Analysis
- Commercial Department – Funding
- Legal Department – Contracts, Registration and Foreclosure
- Finance Department – Audit (cash disbursements)

Post Closing

- Legal Department – Contracts (register property and record mortgage)
- Finance Department – Accounting (record the transactions; monitor payments; generate delinquency report)

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- Commercial Department – Customer Services (contact delinquent borrowers)
- Internal Audit Department (audit closed loan files)

All the specialists who were interviewed seemed knowledgeable of how to perform their respective tasks, although they may not know about other specializations or have the skills required to transfer to another job. Having three or four specialists attend the Egyptian Primary Mortgage Market Course: Introduction to the Real Estate Finance Industry each time it is offered will result in a staff with greater understanding of the mortgage finance industry in Egypt, the issues inherent in the industry and increased knowledge of specializations other than their own.

Underwriting

Underwriting is the process during which data is gathered, checked and verified and leads to a decision either to approve or reject a loan application. The underwriting process as it is conducted at El Taamir is complex and involves as many as twenty people “touching” the loan file at least twenty-five times. (*See Addendum - II Loan Application Flow Chart.*) The contents of the loan file are reviewed by specialists in various departments a minimum of six times before the loan is funded and is audited by the internal auditor post-funding. Additionally, an audit committee chaired by the internal auditor audits the file for every loan that has been funded.

Although El Taamir’s underwriting process is complex, it is missing a few factors that are important to making sound mortgage finance decisions and that are standard in countries with an established mortgage finance industry. Three examples involve verification of identity, employment history and total debt.

Verification of Identity. Although an investigator makes a site visit to the Applicant’s current residence, there is no verification that he/she does not have a criminal record. Background checks, including criminal records, are a standard practice in established mortgage finance markets. This speaks to the “character” of the borrower, and “character” is one of the five “C’s of Credit” identified in **Egyptian Primary Mortgage Market Course: Introduction to the Real Estate Finance Industry**. Depending on the severity of the offense, a criminal record may be a cause for rejecting a Loan Application.

The database at the Central Bank of Egypt does not include criminal records, thus such a check may be cumbersome. Including these records in the Credit Bureau database will simplify gathering this information.

Employment History. An employment letter on employer letterhead is required from Applicants who are not self-employed, and employment and income are verified by telephone call or in person at the employer’s office. However, there is no consideration given to the length of employment even though the Applicant may have been hired only recently.

Total Debt. An investigator checks the Central Bank of Egypt database to verify an Applicant’s credit history with other lenders but that database does not include extensions of credit less than 30,000LE, either paid or still owed. Such information is requested on the Loan Application but there is no assurance that the Applicant will provide it.

Portfolio Management

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Finance monitors payments to identify delinquent payments, with access to the Housing Development Bank (HDB) payments database and internal records of payments made directly to El Taamir and notifies the Commercial and Legal Departments of delinquent payments. A Customer Service Representative contacts Borrowers to inquire about the delinquent payments. However, there are no established collection procedures or a "Collection Department."

Borrowers should be contacted no more than four days after a monthly payment is delinquent. While the collection process must be handled on an individual basis, it is prudent and essential to have a defined process that includes, but is not limited to, contacting the Borrower by telephone, in person and in writing to:

- determine why the payment(s) are delinquent
- determine the Borrower's ability and willingness to make the payments
- establish dates for bringing the loan current

A memorandum including details of conversations with the Borrower should be written immediately after each contact with the Borrower.

Legal action should be taken only after extensive actions have been taken to have the Borrower remedy the delinquency but the Borrower has been unable or unwilling to make payments to bring the loan current.

The complexity of the credit process does not necessarily assure a low-delinquency loan portfolio. Although delinquencies have been minimal, the portfolio is too young to assess its quality. Experienced collectors may be needed in the future.

Further, there are few and limited reports regarding the loan portfolio. To adequately manage a risk portfolio, it is necessary to have reports that give information such as:

- delinquency history as well as current status
- delinquency aging
- delinquency by product
- geographic concentrations
- concentrations by use of commercial property
- concentrations by employer and/or industry in which borrower is employed
- concentration of self-employed borrowers
- profitability by product type

Other than an accounting software used by Finance, El Taamir relies on Excel and Access for its IT needs. Those two systems will not be adequate to capture and report the above data and manage a large portfolio.

According to the law, total exposure to one borrower to the first degree can be as high as ten percent of the mortgage finance company's issued and outstanding capital. Having such a high "exposure to capital ratio" is extremely generous and unheard of in established mortgage finance markets. In practice, El Taamir's highest exposure to one borrower is substantially less than ten percent of its capital, and management has no intention of incurring such an exposure.

Process Time

The complexity of the credit process results in a lengthy turn-around time that may be as long as two months (previously estimated to be two-three months) from the day the Loan Application is received until the loan is funded. The questions should be asked:

- Why is it taking so long to process a loan application?
- How much time does each step in the process take?

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- What can be done to shorten the process?

According to management, “*process time has substantially decreased during the past months and is now about 2-3 weeks on average with credit committee meetings scheduled twice per week.*” Further, “*delays are not due to any complexity in the underwriting process but, as shown by the companies statistics, are mainly due to incomplete information, lack of documentation or changes requested by the client in their applications.*”

However, if the credit process can be modified to involve fewer staff members and to achieve greater efficiency, while still assuring sound credit decisions, one or two employees could be re-assigned to marketing or sales. Standard credit practices in established mortgage finance markets include (1) origination, (2) processing, (3) underwriting and (4) closing.

(1) The Originator:

- Receives the loan application
- Has the applicant sign any forms necessary to authorize the lender to process the application
- Verifies that all documents required have been submitted
- Verifies that request meets lenders parameters

(2) The Processor verifies and validates all the information provided by the applicant, such as

- Employment
- Primary and secondary sources of income
- Identity, including check of criminal records
- Credit check

Usually, at this point, the appraisal is requested.

(3) The Underwriter

- Reviews the loan package to confirm that it conforms to all the guidelines required for the loan product, such as loan to value ratio, income to monthly installment ratio, income to fixed monthly obligations ratio
- Reviews the appraisal
- Reviews the credit report

The underwriter has ultimate power and decision authority over the approval of a loan. The underwriter notifies the originator and the closer that the loan has been approved, or notifies the originator that the loan has been rejected. The originator notifies the applicant and schedules the closing of approved applications.

(4) In the case of approved loan applications, the Closer co-ordinates the

- Preparation of closing documents
- Method of disbursement of funds
- Attends the closing and oversees the signing of documents.

In standard practice, no more than six people are involved – originator, lawyer, processor, underwriter, appraiser, closer.

Another opportunity to accelerate the underwriting process is the implementation of an IT system that allows all documents, checklists, memoranda, receipts and notes to be scanned and encrypted so that the file is technology based rather than paper based. This allows the loan process to proceed electronically on PC monitors within the departments. Electronic files only pass to the next department when a manager enters a password/pin into the system. No “hard copy” files or internal memoranda pass between the departments.

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Naturally, a hard copy of important documents is kept in a secure file area for review by staff or lawyers.

In established mortgage finance markets, most lenders use automated underwriting (credit scoring). The advantages are (1) documentation and (2) acceleration of the loan process. Specialized software is used to make loan recommendations for “clear” approvals or “clear” denials, thereby leaving the underwriters free to focus on critical tasks, i.e. reviewing “unclear” or borderline cases, supporting documentation and appraisal results. Automated underwriting allows underwriters to complete analysis on a large percentage of applications in just a few hours.

Fall-Out Rate

After approximately 18 months of operation, El Taamir has processed approximately 400 loan applications, approved approximately 130 of them and funded 90-95 loans. That suggests a very high rate of rejected applications. Management indicated that the fall out was due mainly to Applicants withdrawing the application rather than to a high rejection rate. However, the questions should be asked:

- How many loans were rejected?
- What were the reasons for the rejections?
- Can the risks of rejected loans be mitigated?
- What were the reasons the Applicant withdrew the application?
- Can any of Applicant’s objections be remedied and the application resurrected?
- Why have only 90-95 of the approximate 130 approved loans been funded?

According to management, *“this is an important point and this issue is discussed in the weekly management meetings during which the questions mentioned in the report are regularly raised.”*

Answers to the questions regarding process time and fall-out rate, and improvements thereof, are nearly impossible without a well conceived IT system. According to management, *“various offers are currently under study for a complete integrated IT system to be compatible with MFA reporting requirements and at reasonable cost.”*

Recommendations: (see Action Plan)

1. Skills and Knowledge – have three or four specialists from different departments attend each session of **Egyptian Primary Mortgage Market Course: Introduction to the Real Estate Finance Industry**
2. Skills and Knowledge – have three or four specialists from different departments attend each session of more advanced courses relevant to mortgage finance that are projected in EFS’ workplan
3. Underwriting - evaluate the feasibility and value of doing a background check on Applicants to determine if they have a criminal record
4. Underwriting – request employment history for previous ten years and place greater value on length of current employment beyond two years. (Current employment of less than two years should not be a reason for rejection, but should be considered in context of all other factors.)
5. Underwriting – use credit reports from the Credit Bureau when it is functional
6. Portfolio Management – establish Collection procedures for delinquent loans that include such actions as written notices to the Borrower, contacting the Borrower by telephone, contacting the Borrower in person, acceptance of partial payments, assignment of Borrower’s wages.
7. Portfolio Management – create the following additional portfolio management reports

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- a. Daily delinquency report
 - b. Delinquency with history as well as current status
 - c. Delinquency aging (30, 60, 90 ...days)
 - d. Delinquency by product type
 - e. Geographic concentrations
 - f. Concentrations by use of commercial property
 - g. Concentrations by employer and/or industry in which borrower is employed
 - h. Concentration of self-employed borrowers
 - i. Profitability by product
 - j. Profitability by client
8. Portfolio Management – purchase or design software designed specifically for mortgage finance operations
 9. Portfolio Management – capture all data beginning with the date the Loan Application was received, dates of all actions regarding the Application, reasons for rejection or fall-out for other reasons. It will also be better if the data is stored electronically.
 10. Portfolio Management – establish a maximum exposure substantially less than that legally allowed, such as 2% of capital issued and outstanding
 11. Portfolio Management - establish an acceptable minimum prepayment amount that is economically feasible for El Taamir to process.
 12. Process Time – analyze loan applications that have been processed to determine the cause of the delays from inception to funding and identify measures for accelerating the process time
 13. Process Time – analyze all tasks in the credit process to confirm that each task adds value to the process or to determine that some are not necessary i.e. is it necessary to have the contents of the Loan Application File reviewed six times and “touched” by as many as 25 people?
 14. Process Time – assess the feasibility of adapting a credit scoring system
 15. Fall-Out Rate – review rejected and withdrawn Loan Applications to categorize reasons for rejection or withdrawal; follow-up with the Applicants on those that were withdrawn to see if they are interested in re-instating the application

CREDIT MANUAL

A thorough study of El Taamir's credit manual, "The General Framework of Finance Policies," revealed that this document contains both policy and procedures, but not in sufficient detail, completeness and clarity to be regarded as an all-inclusive tool to be used by El Taamir's staff members who are responsible for assuring asset quality from inception to collection. As translated into English, its organization is unclear and confusing. Further, it addresses only a few of many procedures that should be followed throughout the process from inception to collection of a Mortgage Finance loan.

It is recommended that El Taamir adopt a Credit Manual composed of a Credit Policy and Credit Procedures, which are two separate documents that will make it possible to change Procedures without modifying the Policy. This reflects the theory that a Credit Policy should be reviewed perhaps annually, but modified infrequently because it sets forth strategy and concept. The purpose of the Credit Procedures is to implement the Credit Policy. Experience, change in the market and other logistical factors may require changes in Procedures, but they will still be in compliance with the Policy. This follows a format that is generally accepted and used in countries with a developed Mortgage Finance industry.

The purpose of the Credit Policy is to assure that loans approved and funded by El Taamir are in compliance with all laws and regulations of the Arab Republic of Egypt and that they are of such a quality that will not put El Taamir's assets at risk. Further, the Credit Policy is intended to provide a framework in which Credit Procedures can be developed and modified as advisable, based on El Taamir's experience and the development of the local Mortgage Finance market.

Both the Credit Policy and Credit Procedures should be distributed to all officers and employees of El Taamir, and training in their use and application should be mandatory. The officers and employees are to be charged with understanding and following what is set forth therein.

The Credit Policy and Credit Procedures which were proposed are included in Addenda III and IV.

The Credit Policy was delivered to El Taamir's Vice Chairman, Aly El Labban. Subsequently, Mr. O'Brien, Ms. Ezz El-Din, Mr. Obeid and Ms. McNeil met with Mr. Labban and the Deputy General Manager of the Credit Department, Abdalla Roshdy, to discuss the proposed document. They had reviewed the Credit Policy thoroughly, and declared it to be acceptable to El Taamir.

The Credit Policy Advisor conducted a short workshop for El Taamir and EFS staff covering the importance and use of written Credit Policy and Credit Procedures, as well as their responsibility in complying with them.

Recommendations

1. A copy of the Credit Policy should be given to each member of the Board of Directors for their review and approval. Such approval should be noted by having each Director affix his signature on the last page of the original Policy designated for approval signatures so that all original signatures are on the same page.
2. Each General Manager, Deputy General Manager or their designates should review the Credit Procedures to correct any inaccuracies.
3. Sample copies of all internal forms and documents used in the credit process should be Attachments to the Credit Procedures Manual as listed in the Credit Procedures Manual Table of Contents.
4. Sample copies of all external documents required in the credit process should be Addenda to the Credit Procedures Manual as listed in the Credit Procedures Manual Table of Contents.
5. A copy of the Credit Policy and Credit Procedures Manual should be given to each officer and employee of El Taamir involved in the credit process, with instruction that they are to become familiar with all requirements of both documents.
6. Have in-house, on-going training to reinforce the importance of the Credit Policy and Credit Procedures and to assure that all employees are following them.

AUDIT REGIME

El Taamir's current practice is to audit the files of all loans that are funded. An Audit Committee, whose members are the General Manager of the Commercial Department and the Deputy General Manager of the Legal, Internal Audit and Finance Departments, has audited the first 65 loans that were funded. The audit of those files, which required more than 288 person hours, (committee met for three hours three times a week for two months), revealed only minor infractions, such as missing copy of a receipt for payment of fees. The internal auditor has determined a schedule for the next two-three months for auditing the additional loans that have been funded.

An audit of all funded loans is not practical or feasible for a large portfolio. If that is necessary, there is something lacking in the production process. An audit should be conducted on a sample of funded loans.

A standard audit process followed in established mortgage finance markets includes the following tasks.

1. Prepare and mail confirmation forms to borrowers. Data to be confirmed include original amount of the loan, interest rate, duration of the loan, number of monthly payments made to date. Borrower is asked to return the confirmation forms indicating that the information is correct or noting any discrepancies. It may be necessary to follow-up with those Borrowers who do not return the confirmation form within a specified length of time, such as two weeks.
2. Examine the contract and promissory note for completeness.
3. Compare the contract with the financial data recorded.
4. Confirm that all Terms of Acceptance of the Credit Procedures were met.
5. Confirm that the loan was approved at the required level of authority.
6. Confirm that the collateral property has been registered and the first mortgage recorded.
7. Confirm that the loan is in compliance with all articles of Law No. 148.
8. Confirm that all fees were collected and accounted for accurately.
9. List all discrepancies.

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10. Inform external auditors that it will review annually its internal audit regime for compliance with Credit Policy and Credit Procedures.
11. Any external audit should review the internal audit regime and make recommendations based on external audit findings.
12. Management will review external audit findings and consider changes to the internal audit regime.

Recommendations

1. Follow an audit process similar to what is standard practice in established mortgage finance markets.
2. Establish a percentage of the closed loans to be audited, such as 25%.
3. Establish a reasonable loan size over which all loans are audited, for example, all loans in excess of 300,000LE must be audited.
4. Audit all construction and development loans after they have been fully funded.
5. Audit loan files after, rather than before, the collateral property has been registered and the mortgage recorded.
6. Prepare separate audit checklists for residential, construction and development, commercial loans.
7. Include audit findings in El Taamir's database so reports can be generated.

JOB DESCRIPTIONS

A review of a sampling of job descriptions confirmed that some revisions would result in job descriptions that can be more useful in recruiting, hiring, internal placement and performance measurement. Consequently, the Credit Policy Advisor (CPA) developed a short training program for writing job descriptions that was conducted for EFS and El Taamir staff. The CPA adapted a format to be used for written job descriptions and revised those for the General Manager – Finance and General Manager – Credit and used them in the training. (*See Addendum V – Format for Written Job Description.*)

El Taamir staff who attended the training will work to rewrite El Taamir job descriptions for all functions, with some exceptions. For instance, the Commercial Department has a General Manager but does not have a Deputy General Manager. In the other departments, the opposite is the situation, so the Deputy General Managers function as the General Manager in their respective departments. Consequently, the job descriptions for Deputy General Manager do not need to be a high priority at this time.

Recommendations

1. El Taamir staff, with the assistance of EFS staff, who attended the EFS training for writing job descriptions revise those for the following functions using the recommended format:

Commercial Department

- a. General Manager
- b. Operations and Funding staff
- c. Customer Services Representative
- d. Marketing staff
- e. Sales staff
- f. Contact person/GM secretary

Credit Department

- a. Credit Analyst
- b. Administrative Assistant/secretary

Finance Department

- a. Accountants

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- b. Audit staff
- c. Cashier

Legal Department

- a. General Manager
- b. Lawyer
- c. Secretary

Engineering

- a. General Manager
- b. Internal Appraiser
- c. Investigator/Verification staff

2. After job descriptions for the departments included in Recommendation #1 have been completed, El Taamir staff should write job descriptions for functions in IT and Corporate Services Departments.
3. General Manager/Deputy General Manager - Human Resources and Administration should revise the job descriptions for Vice Chairman and Chairman of the Board, using the recommended format.
4. General Manager/Deputy General Manager – Human Resources and Administration should review all revised job descriptions, giving particular attention to any inconsistency between job function/requirements and job title. Any inconsistencies should be corrected, probably by changing the job title.
5. Job titles should be defined and applied consistently in all departments, i.e., “representative,” “administrative assistant” vs. “secretary,” “analyst” vs. “investigator,” “deputy supervisor,” “assistant manager.”

TRAINING CONDUCTED

Training and transfer of knowledge occurred formally and informally, both in groups and one-on-one. Skill development advancement resulted from on-the-job tasks.

Job Descriptions – EFS training gave one EFS and two EI Taamir staff hands on experience writing job descriptions that can be useful in recruiting, hiring, internal placement and measuring performance.

Credit Policy and Credit Procedures – EFS and EI Taamir management and staff representing the departments involved in the credit process from origination to follow-up and monitoring who attended the EFS training conducted by the Credit Policy Advisor have an understanding of the importance and use of Credit Policy and Credit Procedures and can relate such to their co-workers.

Interviewing Techniques - Through participating in the interviews with EI Taamir staff who are involved in the credit process, the EFS advisors gathered more information regarding the credit process in EI Taamir.

Computer Skills – After analyzing the credit process, a workflow diagram has been prepared by the EFS Advisor for the first time. The workflow chart illustrated the complexity of the underwriting process in EI Taamir.

PRESENTATION TO EL TAAMIR MANAGEMENT

On March 7, 2006, the Credit Policy Advisor presented observations and recommendations for El Taamir at a meeting presided over by El Taamir's Chairman and Managing Director, Magd El Din Ibrahim. Other attendees from El Taamir were:

- Aly El Labban, Vice Chairman and Managing Director
- Abdalla Roshdy, Deputy General Manager – Credit Department
- Khaled El Abrikgy, Deputy General Manager – Audit Department
- Tarek Zohour, Assistant General Manager – Financial Division
- Mohamed El Kahki, Deputy General Manager – IT Department
- Ahmed Hesham, Deputy General Manager – Administration and Human Resources
- Heba Kabadaya, Office Manager for the Chairman
- Nevine El Zahed, Marketing Representative

Attendees from EFS were:

- Allen Decker, Chief of Party
- Kevin O'Brien, Senior Real Estate Advisor
- Amal Ezz El-Din, Senior Financial Advisor
- Aser Obied, Research and Training Assistant

The meeting was conducted in the conference room of El Taamir's newly opened retail office located on the ground floor of the building in which the Company's headquarters is located.

MANAGEMENT COMMENTS

A draft of this report was provided to El Taamir's management team prior to the Presentation. All of the attendees from the Company had reviewed the report and given the recommendations thorough consideration.

Comments received electronically from Vice-Chairman Laban prior to the Presentation and those noted during the Presentation are included as Addendum VI. Where appropriate, these comments are reflected in the respective sections of this Report.

Several of the recommendations received strong endorsement, especially from the Chairman. In particular:

- Taamir will send four or five staff to the next Mortgage Association training program that will take place March 12 – 16, 2006.
- Consideration will be given to rotating staff so they can be cross-trained and have a better understanding of the entire process.
- There should be greater emphasis on employment history.
- The issue of minimum prepayments was raised in one meeting of the Board of Directors and is being studied.
- Pronouncement that the workflow process still needs to be reduced.
- Concurrence on the importance of reviewing rejected and withdrawn loan applications in an attempt to reinstate the applications, resulting in approved and funded loans.
- Statement that the Audit Regime recommended will be helpful to the non-executive Audit Committee that was recently formed.
- Recognition of the importance of having adequate IT support in the very near future.
- Directive to revise Job Descriptions according to the format recommended.

FOLLOW UP

1. Arrange a meeting between EFS Senior IT Advisor and Taamir's DGM – IT.
2. Taamir's DGM – Human Resources and Office Manager of the Chairman in revising Job Descriptions.
3. EFS Research and Training Assistant and Senior Financial Advisor encourage El Taamir staff in collecting samples of all internal and external documents and incorporate them into the Credit Procedures manual.
4. EFS Research and Training Assistant make corrections to Credit Procedures that are provided by Taamir staff after their review.
5. EFS determine action taken by Taamir regarding approval of the Credit Policy by Taamir's Board of Directors.
6. Advise Taamir of future EFS/Egyptian Mortgage Association sponsored courses that will focus on processing, underwriting, servicing and collection. Special modules for each course will focus on IT applications and risk management of commercial real estate loans.

Enhancement Of Credit Policy And Procedures Of Mortgage Finance Company

ACTION PLAN FOR IMPLEMENTING RECOMMENDATIONS

Recommendation	What Tasks Required	Who is Responsible	When
Skills and Knowledge – have three or four specialists from different departments attend each session of Egyptian Primary Mortgage Market Course: Introduction to the Real Estate Finance Industry	Identify training courses available through EFS, EBI, and others and inform counterparts in other departments.	DGM Human Resources	On going beginning March, 2006
Skills and Knowledge – have three or four specialists from different departments attend each session of more advanced courses relevant to mortgage finance that are projected in EFS' workplan	Identify training courses available through EFS, EBI, and others and inform counterparts in other departments.	DGM Human Resources	On going beginning March, 2006
Underwriting - evaluate the feasibility and value of doing a background check on Applicants to determine if they have a criminal record	Determine if there is such a database and what is involved in accessing it.	DGM Credit	March – April, 2006
Underwriting – request employment history for previous ten years and place greater value on length of current employment beyond two years	Revision of Loan Application	DGM Commercial	March, 2006
Underwriting – use credit reports from the Credit Bureau when it is functional	Add this to investigation and verification tasks	DGM Engineering - Investigation	As soon as Credit Bureau is functioning
Portfolio Management – establish Collection procedures for delinquent loans that include such actions as written notices to the Borrower, contacting the Borrower by telephone, contacting the Borrower in person, acceptance of partial payments, assignment of Borrower's wages	Determine specific procedures for collecting delinquent loans as the law allows, incorporate them into the Credit Procedures manual and train collectors	GM – Commercial	Q2, 2006

Enhancement Of Credit Policy And Procedures Of Mortgage Finance Company

Recommendation	What Tasks Required	Who is Responsible	When
<p>Portfolio Management – create the following additional portfolio management reports</p> <ul style="list-style-type: none"> a. Daily delinquency report b. Delinquency with history as well as current status c. Delinquency aging (30, 60, 90 ...) d. Delinquency by product e. Geographic concentrations f. Concentrations by use of commercial property g. Concentrations by employer and/or industry in which borrower is employed h. Concentration of self-employed borrowers i. Profitability by product type j. Profitability by client 	Design reports	DGM IT	March – June, 2006
Portfolio Management – purchase or design software designed specifically for mortgage finance operations	Research the market to determine what is available and at what cost. Make recommendation to management.	DGM IT	Completed by Q4, 2006
Portfolio Management – capture all data beginning with the date the Loan Application was received, dates of all actions regarding the Application, reasons for rejection or fall-out for other reasons	Create data base Design reports	DGM IT	Q2, 2006
Portfolio Management – establish a maximum exposure substantially less than that legally allowed, such as 2% of capital	Management decision	Vice Chairman	March, 2006

Enhancement Of Credit Policy And Procedures Of Mortgage Finance Company

Recommendation	What Tasks Required	Who is Responsible	When
Portfolio Management - establish an acceptable minimum prepayment amount that is economically feasible for El Taamir to process.	Complete cost effectiveness analysis to determine minimum amount feasible	DGM Finance	Q2, 2006
Process Time – analyze loan applications that have been processed to determine the cause of the delays from inception to funding and identify measures for accelerating the process time	Assign task to staff members to review each funded File and to diagram time line for each file.	GM Commercial GM Credit	Q2, 2006
Process Time – analyze all tasks in the credit process to confirm that each task adds value to the process or to determine that some are not necessary i.e. is it necessary to have the contents of the Loan Application File reviewed six times and “touched” by as many as 25 people?	Form ad hoc committee composed of staff members from Customer Services, Operations, Legal, Investigations, Credit Analysis and Funding to complete this task and make recommendations to management in light of the process stated in page 7	GM Commercial DGM Commercial DGM Credit DGM Legal	Q2, 2006
Process Time – assess the feasibility of adapting a credit scoring system	Research to determine what is available that is applicable or adaptable to El Taamir	DGM IT DGM Commercial DGM Credit DGM Engineering	Q4, 2006
Fall-Out Rate – review rejected and withdrawn Loan Applications to categorize reasons for rejection or withdrawal; follow-up with the Applicants on those that were withdrawn to see if they are interested in re-instating the application	Select at least one staff member from Customer Services, Operation, Funding, Investigations, Credit Analysis to work independently and as a committee to review relevant applications. Allow time from normal work day for the task to be completed.	GM Commercial DGM Credit DGM Engineering DGM Legal DGM Finance DGM Engineering	Completed by end of 2006

Enhancement Of Credit Policy And Procedures Of Mortgage Finance Company

Recommendation	What Tasks Required	Who is Responsible	When
Credit Policy – Give copy of the Credit Policy to each member of the Board of Directors for their review and approval. Each Director affix his signature on last page of the original Policy designated for approval signatures with all signatures on one page.	Include on agenda for next meeting of the Board of Directors	Vice Chairman Chairman	March – April, 2006
Each General Manager, Deputy General Manager or their designates should review the Credit Procedures to correct any inaccuracies.	Assign responsibility for review and allow time to conduct the review	GM – Commercial DGM – Credit, Finance, Legal, IT	March, 2006
Credit Procedures - Sample copies of all internal forms and documents used in the credit process should be “Attachments” to the Credit Procedures Manual as listed in the Credit Procedures Manual Table of Contents.	Collect forms and documents.	DGM Credit	March, 2006
Credit Procedures - Sample copies of all external documents required in the credit process should be “Addenda” to the Credit Procedures Manual as listed in the Credit Procedures Manual Table of Contents.	Collect sample copies of documents.	DGM Credit	March, 2006
Credit Policy and Procedures - A copy of the Credit Policy and Credit Procedures should be given to each officer and employee of EI Taamir, with instruction that they are to become familiar with all requirements of both documents.	Distribute Credit Policy and Credit Procedures with cover memorandum from Vice Chairman	DGM Human Resources	Immediately after all Attachments and Addenda have been completed, ideally, no later than April, 2006
Credit Policy and Procedures - Have in house on-going training to reinforce the importance of the Credit Policy and Credit Procedures and to assure that all employees are following them	Establish training schedule of minimum 4 times a year	DGM Credit DGM Human Resources	March or April, 2006 and quarterly thereafter
Follow an audit process similar to what is standard practice in established mortgage finance markets.	Review and revise current audit process	DGM Audit	On going

Enhancement Of Credit Policy And Procedures Of Mortgage Finance Company

Recommendation	What Tasks Required	Who is Responsible	When
Audit - Establish a percentage of the closed loans to be audited, such as 25%.	Make recommendation to management	DGM Internal Audit	Q2, 2006
Audit - Audit loan files after, rather than before, the collateral property has been registered and the mortgage recorded.	Audit loan files	DGM Internal Audit	On going
Audit - Establish a reasonable loan size over which all loans are audited, for example, all loans in excess of 300,000LE must be audited.	Make recommendation to management	DGM Internal Audit	Q2, 2006
Audit - Audit all construction and development loans after they have been fully funded	Make recommendation to management	DGM Internal Audit	On going
Audit - Prepare separate audit checklists for residential, construction and development, and commercial loans	Prepare checklists	DGM Internal Audit	March - April, 2006
Audit - Include audit findings in El Taamir's IT system so reports can be generated	Consult with IT and begin with findings of audits conducted to date.	DGM Internal Audit DGM IT	Q2, 2006

Enhancement Of Credit Policy And Procedures Of Mortgage Finance Company

Recommendation	What Tasks Required	Who is Responsible	When
<p>Job Descriptions - EI Taamir staff, who attended the EFS training for writing job descriptions revise those for the following functions using the recommended format:</p> <p><u>Commercial Department</u></p> <ul style="list-style-type: none"> a. General Manager b. Operations and Funding staff c. Customer Services Representative d. Marketing staff e. Sales staff f. Contact person/GM secretary <p><u>Credit Department</u></p> <ul style="list-style-type: none"> c. Credit Analyst d. Administrative Assistant/secretary <p><u>Finance Department</u></p> <ul style="list-style-type: none"> d. Accountants e. Audit staff f. Cashier <p><u>Legal Department</u></p> <ul style="list-style-type: none"> d. General Manager e. Lawyer f. Secretary <p><u>Engineering</u></p> <ul style="list-style-type: none"> d. General Manager e. Internal Appraiser f. Investigator/Verification staff 	<p>Revise the written job descriptions</p>	<p>EFS and EI Taamir staff</p>	<p>Completed by end of Q2, 2006</p>
<p>Job Descriptions - After job descriptions for the departments included in Recommendation #1 have been completed, EI Taamir staff should write job descriptions for functions in IT and Corporate Services Departments.</p>	<p>Revise written job descriptions</p>	<p>DGM Human Resources</p>	<p>Q3, 2006</p>

Enhancement Of Credit Policy And Procedures Of Mortgage Finance Company

Recommendation	What Tasks Required	Who is Responsible	When
Job Descriptions - General Manager/Deputy General Manager - Human Resources and Administration should revise the job descriptions for Vice Chairman and Chairman of the Board, using the recommended format.	Revise written job descriptions	DGM Human Resources	Q3, 2006
Job Descriptions - General Manager/Deputy General Manager – Human Resources and Administration should review all revised job descriptions, giving particular attention to any inconsistency between job function/requirements and job title. Any inconsistencies should be corrected, probably by changing the job title.	Review all job descriptions	DGM Human Resources	Q3, 2006
Job Descriptions - Job titles should be defined and applied consistently in all departments, i.e., “representative,” “administrative assistant” vs. “secretary,” “analyst” vs. “investigator,” “deputy supervisor,” “assistant manager.”	Review job titles	DGM Human Resources	Q3, 2006

Table of Contents of EHFC Operations Manual

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Enhancement Of Credit Policy And Procedures Of Mortgage Finance Company

Date:

Cover Memo:

To: Whom It May Concern

The following Credit Policy and Credit Procedures are intended to assist a new mortgage finance company or a new mortgage lending department within a bank. It provides a minimum foundation for management to add to or change.

CREDIT POLICY FOR MORTGAGE FINANCE

EGYPT FINANCIAL SERVICES



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PREFACE

“The written loan program should be the logical outgrowth of a rational management process, articulating objectives and delegating responsibility. The benefits of a program description lie not so much in the description itself, but rather in the deliberative process by which it is produced. Presumably, the management/lending team will think through the whole process of how funds are intermediated and arrive at some judgment of how risk is assumed. Then by putting this statement in writing, the communication of it is enhanced in terms of both convenience and clarity.”*

The written loan program, in effect, becomes a prescribed course of action derived from those options perceived by management to be compatible with the lender's internal resources and broad objectives.

PURPOSE

The purpose of this Credit Policy is to assure that loans approved and funded by lender are in compliance with all laws and regulations of the Arab Republic of Egypt and that they are of such a quality that will not put lender's assets at risk. Further, this Credit Policy is intended to provide a framework within which Credit Procedures can be developed and modified as advisable, based on lender's experience and the development of the local Mortgage Finance market. Therefore, both the Credit Policy and Credit Procedures are to be distributed to all officers and employees of lender involved in the credit process, and the officers and employees are charged with understanding and following what is set forth therein.

LEGAL FRAMEWORK

All Mortgage Finance loans will be made in compliance with the:

- rules and procedures set forth in the Executive Regulation of the Law No. 148 for the year 2001;
- Ministerial Decrees No. 100, 101 and 102 for the year 2003 concerning implementation of the provisions of mortgage finance agreement forms;
- approval by the Board of Directors of the Mortgage Finance Authority in its session held on 27 May, 2003 of basic conditions for Mortgage Finance; and,
- parameters approved and set forth by the Board of Directors of the lender.

As additional laws are passed and further regulations are implemented, this Credit Policy and the accompanying Credit Procedures will be modified to comply with those laws and regulations.

Further, all Mortgage Finance loans are to be considered and analyzed fairly and without prejudice or unwarranted external influence.

* Robert H. Bukowski, "Written Loan Policies: Can They Help?" Burroughs Clearing House, July, 1976,p.41

RISK ENVIRONMENT

- Real property intended to be collateral for a loan may not be legally registered.
- Disparity between high cost of real property and individual income may make it unlikely that a borrower(s) has sufficient income to repay a loan.
- Limited sources of individuals' credit histories may result in some past or current debt outstanding not being identified in the Underwriting process.
- Borrower's lessened inclination to repay a loan if value of property has declined below the outstanding balance of the loan

This credit policy and credit procedures are designed to mitigate the Risk Environment.

LOAN PARAMETERS

These are the guidelines that define the acceptable risks for the Mortgage Finance program of the lender. Typically, none of these parameters may be exceeded on any individual loan (see "exceptions" under conclusion). Should experience indicate that modifications are warranted, the Board of Directors or designated officers of the lender may consider such modifications.

Loan Purpose: Purchase, construct or renovate a dwelling (apartment or house), administrative unit or commercial shop.

Loan Size: Minimum: As required by laws or regulations or as experience or market conditions make reasonable, the lender may establish a minimum loan size that will be set forth in its Credit Procedures.

Maximum: In accordance with Law 148, total exposure to one Applicant and relatives up to the first degree may not exceed ten percent of the lender's issued and outstanding capital. The lender's Board of Directors assumes the authority to determine a lesser amount of maximum exposure and grants that same authority to the Chairman and Vice Chairman of the lender. (best international practices would strongly suggest an internally set maximum).

Installment Size: As set forth in Law 148, the Mortgage Finance loan monthly installment including principal and interest should not exceed the following limits:

- 40% of the borrower's total income (combined income if there are more than one borrower) with the exception of low-income borrowers, then
- 25% of the low-income borrower's total income (combined income if there are more than one borrower). Total annual income of each low-income borrower must not exceed 12,000 LE and 18,000 LE for a married couple.

Any change in subsequent laws and regulations regarding installment size or maximum income levels for low-income borrowers will be updated in the Credit Procedures.

Loan to Value Ratio (LTV): As set forth in Law 148, the maximum limit for a Mortgage Finance loan is 90% of the appraised value or sales price of the property, whichever is less or 90% of the estimated cost of construction for property proposed to be built. However, the lender has established a lower LTV of (...) % of appraised value or sales price, whichever is less, and (...) % of estimated cost of construction or appraiser's estimated cost of construction, whichever is less. Any change in subsequent laws and regulations regarding installment size will be updated in the Credit Procedures.

Appraisal: A key step in any Mortgage Finance process is the appraisal of the property in the form of a detailed analysis of the value of the property by an expert, objective, honest and independent appraiser. This process should include a variety of evaluation methods,

such as: market value as established by sale prices of comparable units, investment value and construction (or replacement) costs.

An "Appraisal" is only as reliable as the "Appraiser" is competent and honest. (See *Underwriting – Appraisers section for selection of Appraisers.*)

Collections: A Mortgage Finance program must have in place an intelligent process to distinguish between the many who want to bring their loan current and the few who cannot or will not pay as agreed. The problem comes in identifying and moving rapidly with people who are beginning to get into trouble. When a customer gets into financial trouble severe enough to risk losing his or her home, it is essential to take the time and effort to understand what has gone wrong and to explore every possible alternative to keep the customer current and avoid the foreclosure process. Legal action should be taken only as a last resort.

Foreclosure: There will come a time when all collection efforts have failed and delinquency continues. Foreclosure procedures will be followed as set forth in Law 148.

TARGET MARKET

Credit-worthy individuals or married couples with verifiable employment history or successful self-employment, between the minimum legal age to enter into contracts and a maximum age not to exceed 65 years throughout the life of the loan, and who qualify for Life Insurance as required by the Lender's Credit Policy. Perspective borrowers are intending to buy, construct or improve properties that are registered or able to be registered.

PRODUCT DESCRIPTION

Mortgage Finance loans will be to individuals for the purpose of purchasing an existing or newly constructed or renovated dwelling, administrative unit or commercial shop or for construction of such real property. They will be direct loans to the borrowers, secured by a first lien on the property or an official mortgage and other forms of collateral and guarantees as deemed appropriate. It may be reasonable to develop new products or modify existing ones due to changes in market conditions.

Detailed descriptions of the lender's products are to be set forth in the accompanying Credit Procedures, which are to be updated as existing products are modified or new ones developed.

ACCEPTABLE EMPLOYERS

The lender reserves the right to reject a Loan Application if the Applicant is employed in an industry or with a business entity that might present a risk that is not in compliance with its Credit Policy and Credit Procedures.

TERMS OF ACCEPTANCE

It is mandatory in all cases that the borrower has the ability to generate sufficient cash to repay the loan. The Terms of Acceptance (TOA), the minimum criteria for a borrower to qualify for a loan, are set forth in the accompanying Credit Procedures.

TERMS AND CONDITIONS

In order for the loan to be repaid in a logical, regular manner, repayment terms should be based on what the customer can afford and reflect a realistic pay-back rate. Loans will not be made with the maximum terms just to get the lowest payment possible. Terms and Conditions may change based on experience and market conditions. They are to be set forth in the accompanying Credit Procedures, which are to be updated promptly as changes are approved.

ACCEPTABLE COLLATERAL

While cash flow is the expected source of repaying the Mortgage Finance loans, catastrophes happen and the prudent lender has at least a second way of liquidating the loan. Collateral is this program's secondary source of repayment. The minimum acceptable conditions for the collateral to qualify include:

- First mortgage on real property to be purchased, renovated or constructed, i.e. dwelling and land, if collateral is a house, or on apartment, administrative unit or commercial shop.
- Maximum Loan to Value Ratio – (...) % of purchase price or appraised value, whichever is less; (...) % of appraised value or cost of construction, whichever is less for construction loans
- Title to the real property must be clear and unencumbered, legally registered and legally saleable.
- There must be no delinquent Real Property taxes.

The property should be examined no less than every five years to make sure of its safety and that there has not been deterioration or other conditions that might have a negative effect on its value or at any time that management becomes aware of adverse changes in the property.

UNDERWRITING

The Underwriting process is the portion of the program during which the Loan Application is evaluated through data gathered, checked and verified in preparation for the Credit Decision being made on whether to grant credit and what the terms and conditions of the loan will be.

It is essential that technically skilled specialists be responsible for Underwriting. The Underwriting process may involve specialists from various departments within the lender, including:

- Commercial – Customer Service
- Commercial – Operations
- Credit Analysis
- Engineering – Investigation
- Engineering – Appraisals
- Legal – Contracts & Documents Review,
- Finance – Disbursements
- Finance – Loan Servicing.

The Underwriting process of the Loan Application requires a thorough investigation of the customer and of the collateral. Essential in this process is a well documented:

- investigation of the borrower(s);
- chain of title; and
- appraisal of the property

The Underwriting process has multiple phases to gather sufficient information to make a sound credit decision:

- Complete Loan Application – “Request for Financing the Purchase of a Residential Unit” (“Request”)
- Initial Screening
- Document Verification
- Data Verification including verification of ability to pay monthly installments
- Collateral Verification

Loan Application

The Applicant(s) should be encouraged to take their time to complete the “Request” form and to supply the required supporting information. This is an important financial transaction and should be treated seriously.

It is imperative that the Applicant understand that a “Request” form that is incomplete and/or does not include the items required for a complete Loan Application will not be processed. All potential borrowers (Applicant) must provide all the data which applies to them. All Applicants on one loan must be credit-qualified and will be required to sign the loan documents and to repay the loan.

Appraisers

The lender will maintain an internal register of acceptable appraisers. Those appraisers will be selected only from those registered with the Mortgage Finance Authority (MFA) and deemed by the lender to be independent, competent and trustworthy. To be independent, the appraiser cannot be an employee of the lender.

They must have demonstrated their competency through education, training and practical experience. Appraisers should be familiar with or have had training in appraisal practices and standards. It is imperative to verify the appraiser's background and experience in completing appraisal reports. The appraiser's knowledge and experience in appraising a particular property type and his/her knowledge of a particular geographical area should be prime considerations for selection of an appraiser.

The list of acceptable appraisers will be reviewed periodically, and any who do not comply with the lender's parameters will be removed from the internal register and will not be engaged to conduct appraisals.

Brokers

The lender may accept Loan Applications taken by only those brokers who are included on the list of those approved by the Mortgage Finance Authority. For practical purposes, the lender may develop its shorter list of brokers from whom to accept Loan Applications; however, those selected brokers must be among those approved by the Mortgage Finance Authority. Further, the lender reserves the right to reject any Loan Application that does not comply with this Credit Policy and the accompanying Credit Procedures.

Credit Procedures

The Board of Directors has authorized (.....) to develop procedures for Underwriting, Closing, Administering, Monitoring and Collecting loans. All Procedures must be in compliance with this Credit Policy and prudent to protect asset quality. Credit Procedures are included in a separate document to facilitate modifications that may be required from

time-to-time, but that remain in compliance with the Credit Policy, and do not constitute a change in Credit Policy.

The accompanying Credit Procedures Manual sets forth details for processing Loan Applications, including:

- Taking the Loan Application
- Underwriting, including Screening, Document Verification, Credit Investigation, Appraisals and Credit Analysis
- Document Preparation, Closing and Funding
- Perfection of Collateral

Underwriting and Funding loans are only the first steps in managing risk assets. After the loans have been funded, it is imperative that there be procedures in place to monitor the quality of the Lender's Loan Portfolio for the purpose of identifying assets at risk at the earliest possible moment.

The accompanying Credit Procedures Manual sets forth details for post-closing functions, including:

- Account Administration
- Loan Collection
- Delinquent Loans
- Foreclosures

CREDIT APPROVAL AUTHORITY

It is prudent that there be more than one reviews and assessments of a Loan Application and that it be analyzed from various perspectives, such as legal, property value and credit-worthiness; however, "review and concurrence" do not constitute Approval. The actual authority to approve a Loan Application is determined by the Board of Directors and is set forth in the Credit Procedures. There can be no delegation of Approval Authority unless permitted in writing by the Board of Directors. If the authorized approver is not available, the Loan Application must be presented for Approval at the next highest level of Approval Authority.

Based on factors such as experience and increased volume, the Board of Directors may revise the Approval Authority, both by individuals authorized to approve Loan Applications and amount of the Approval Authority. Such revisions will be noted in the Credit Procedures.

Loan Underwriters have the authority to reject Loan Applications failing TOA, LTV or for some other reason that the Application is not in compliance with this Credit Policy and/or its accompanying Credit Procedures. However, they do not have Approval Authority

REPORTS TO BOARD OF DIRECTORS

It is the responsibility of the Board of Directors (Board) to know and understand the quality and risks inherent in the lender's mortgage loan portfolio. Consequently, each Board member is to receive monthly reports reflective of the lender's mortgage loan portfolio no later than the first Board meeting after the end of a month. Such reports should include but not be limited to:

- Loans approved each month
- Loans funded each month
- Performance of Portfolio including delinquent loans
- Stratification of the portfolio that reflects potential risks such as geographic concentrations and other risks that may be identified as the portfolio increases.

- Loans to Board members or senior executives.*

PORTFOLIO MANAGEMENT

At a minimum, the Chairman, Vice Chairman, and (.....) should receive reports reflecting production and quality, including summary of loan applications that were rejected, as well as those that were approved or are in process. Such reports should be distributed weekly, monthly and quarterly, as deemed appropriate to insure effective monitoring, oversight and management of the loan portfolio.

CONCLUSION

It is the lender's vision to enhance accessibility to affordable housing, especially for medium and low income individuals in Egypt by expanding and improving the housing finance market. The purpose of the Lender's Mortgage Finance program, as set forth in this Credit Policy and the accompanying Credit Procedures, is to provide individuals and families in Egypt the ability to purchase, construct, or rehabilitate and improve apartments, houses, administrative units and commercial shops.

This Credit Policy does not address "exceptions" to the guidelines described above. The lender may elect to provide exceptions, describe what written justification are required and which officer(s) is authorized to approve exceptions.

* Although not specifically addressed in the Real Estate Finance Law, international practices sometimes limit "insider loans".

THIS CREDIT POLICY IS APPROVED BY THE BOARD OF DIRECTORS OF THE LENDER AS INDICATED BY THE SIGNATURES AFFIXED BELOW:

DESIGNEE: _____

Name of Signatory	Signature	Date
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

CREDIT PROCEDURES FOR MORTGAGE FINANCE

EGYPT FINANCIAL SERVICES

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Attachments of Lender's forms and sample documents:

This section of the Lender's Credit Manual sets forth Credit Procedures to be followed regarding Mortgage Finance including:

- Product Description
- Terms of Acceptance
- Terms and Conditions
- Loan Application
- Underwriting, including Screening, Document Verification, Credit Investigation, Appraisals and Credit Review
- Document Preparation, Closing and Funding
- Perfection of Collateral
- Account Administration
- Loan Collection
- Delinquent Loans
- Credit Write-Offs
- Credit Recoveries

PRODUCT DESCRIPTION*

Fixed Rate Fixed Term Product:

Mortgage Finance loans will be

- closed-end, rather than revolving loans,
- with a specific repayment term,
- a fixed interest rate as permitted by Law 148 and other relevant laws,
- and a fixed monthly payment,
- on a maximum maturity of (...) years.

Other Products:

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

TERMS OF ACCEPTANCE

- Minimum Age: Minimum legal age to enter into a contract
- Loans will be made for the purchase, construction or improvement of a free standing dwelling, apartment, administrative unit or commercial shop
- Must provide Verification of Identity
- Must provide Verification of Employment and Income (*See Appendix A – Sample Verification of Employment and Income.*)
- Must provide evidence of ownership (*See Appendix B – Sample Deed of Ownership.*)
- Must provide Copy of Construction License or Construction Permit (*See Appendix C – Sample Construction License/Permit.*)
- Must provide Confirmation from Tax Authority that real estate taxes have been paid for last 10 years or for the term of current ownership, if less than 10 year (*See Appendix (...) – Confirmation of Tax Payments.*)
- Must provide Form 19 – History of Ownership (*See Appendix E – Sample Form 19 – History of Ownership.*)
- Must have no adverse findings in Central Bank of Egypt credit information database
- Loan cannot exceed (...)% of purchase price of property or appraised value, whichever is less, or (...)% of estimated cost of construction or appraisal, whichever is less

* NB: Any new products with different procedures will be added.

- Completion of the lender's loan application – Request for Funding the Purchase of Residential Unit (“Request”)
- Borrower(s) qualify for Life Insurance
- Borrower(s) will not exceed age 65 during the tenor of the loan
- Debt Burden: monthly installment may not exceed:
 - 40% of the borrower's total income (combined income if there are more than one borrower) with the exception of low-income borrowers, then
 - 25% of the low-income borrower's total income (combined income if there are more than one borrower). Total annual income of each low-income borrower must not exceed 12,000 LE and 18,000 LE for a married couple.

TERMS AND CONDITIONS

- Size of Loans: Minimum: no minimum Maximum: total exposure to one Applicant and relatives up to the first degree may not exceed ten percent of lender's issued and outstanding capital which is (...)LE as of date of these Credit Procedures (*see note in Credit Policy Manual*).
- Tenors of Loans: Minimum: (...) Maximum – (...)years
- Interest Rate: (...)% for (...)
- Fees:
 - Application Processing – (...) LE;
 - Appraisal Fee – (...) LE (in Cairo) or (...) LE (outside Cairo);
 - Administration Fee - (...) % of loan amount at closing
- (...) monthly installment paid in advance at closing
- Life Insurance: (...) months' premium in advance paid by borrower at closing Insurance policy must be issued by Alico
- Fire Insurance: (...) months' premium in advance paid by borrower at closing Insurance policy must be issued by (...) Insurance Co
- Pledge not to sell property during registration process (*included in Contract*)
- Pledge not to lease or rent property without 30-day notification to the lender (*included in Contract*)

LOAN APPLICATION

Applicant, who must be the intended purchaser of the property and borrower, submits the Loan Application to a Customer Service Representative (CSR).

The items which constitute a complete Loan Application include:

- Completed, signed and dated “**Request for Financing the Purchase of a Residential Unit**” (“Request”). “Request” must include basic terms and conditions for a Mortgage Finance loan and the Applicant must sign the acknowledgement included in the “Request” that he has been advised of and understands those basic terms and conditions. (*See Attachment 1 - Request for Financing the Purchase of a Residential Unit form*)
- Legally recognized form of identification displaying sufficient personal information to verify the applicant(s) (*Egyptian ID card or Passport*)
- Verification of Employment and Income (*See Appendix A – Letter from employer on employer's letterhead confirming employment and salary*) or Tax Receipt or Certificate from chartered accountant if self-employed, or any other proof accepted by the lender.
- Suitable evidence of “Other Income” noted on Loan Application
- Copy of Deed of Ownership (Blue Contract) provided to the Buyer by the Seller to confirm that the Seller is the owner of the property. If the Seller does not have the Deed of Ownership, a REPD registered Contract of Ownership may be substituted.

- Copy of Construction License or Construction Permit to confirm that unit was legally constructed according to the License or Permit
- Confirmation from Tax Authority that real property taxes (A'wayed) have been paid for last (...) years or for term of current ownership, if less than (...) years. Seller provides this to the Buyer.
- Form 19 – History of Ownership from Publicity & Notary Office of the Ministry of Justice
- Tax receipt for self-employed (See Appendix F – Sample Tax Receipt.)

The following additional documents are required for loans for construction and improvement of property:

- Architectural and engineering plans
- Detailed budget of all “hard costs” (labor, materials and subcontract work) and “soft costs” (architect, engineering fees, costs of permits) needed to complete the project, including a contingency reserve to cover unforeseen events
- Names of major contractors which represent 25% or more of the total construction costs
- Signed copy of the building contract with each major contractor.

UNDERWRITING

The Underwriting process is the portion of the program during which the Loan Application is evaluated through data gathered, checked and verified in preparation for the Credit Decision being made on whether to grant credit and what the terms and conditions of the loan will be.

Initial Screen

The Initial Screen is conducted by the Customer Service Representative (CSR).

To verify the identity of the Applicant, the CSR should:

- request the Applicant’s Personal Identification card or Passport (ID)
- make a copy of it to become a part of the Loan Application
- verify that the Applicant is the individual represented by the form of identification by verifying that the information on the ID is the same as that on the “Request. Any discrepancies should be clarified by a written note to the Loan Application.

The CSR should verify that:

- the “Request” is complete, signed and dated by all Applicants
- all required documents have been provided
- the minimum Terms of Acceptance (TOA) are met or exceeded. If any TOA cannot be verified at this juncture, they will be verified in subsequent steps of the Underwriting Process.

If the above conditions have not been met, the Loan Application is returned to the Applicant(s) with an explanation of why it is being returned. This is not a rejected loan unless the Applicant(s) chooses not to provide the required information and/or document.

If the above conditions are met, the CSR requests a Serial Number for the new Loan Application File (File) and completes a Customer Service Checklist (CSC), confirming that the Loan Application is complete and meets minimum Terms of Acceptance. The CSC becomes a part of the File. (See Attachment 2 – Customer Service Checklist – Attachment 2)

- Upon the Applicant's payment of a (...) LE non-refundable processing fee, the File is given to the (...) to submit for further Underwriting. ((...)*generates a receipt for Applicant and a copy for the File evidencing payment of the fee – See Attachment 3*)
- Internal cross check: Contact Person (CP) reviews the File to confirm its completeness
 - Review all documents in the File to confirm completeness and confirms that the calculations on the "Request" are accurate.
 - Scan the documents pertaining to the real property and manually enters the information in the "Request" into an electronic format of the "Request" so the File can be accessed by computer by staff in all departments. (optional).

Document Review and Investigation – *conducted concurrently*

- CP forwards to Legal – Contracts & Document Review (Legal) requesting a review of the 4 documents pertaining to the real property. (*See Attachment 4 - Memorandum to Legal*)
- CP forwards to (...) requesting credit analysis pertaining to the "Request." (*See Attachment 5 - Memorandum to Investigation*)

Document Review

It is imperative that the four documents pertaining to the real property that will be collateral, therefore, a secondary source of repayment for a loan, be in order. The Legal Department is charged with conducting a review of those documents.

- Legal reviews the documents pertaining to the real property.
- If they are not complete, bona fide or for some other reason to not comply with the Lender's Credit Policy and Credit Procedures, Legal sends a memorandum to CP with an appropriate explanation and instructions for what is necessary for the Applicant to rectify the non-compliance.
- If Legal's assessment is that the documents are acceptable, Legal sends CP a memorandum confirming their acceptability. (*See Attachment 6 – Legal Department Memorandum*)

Investigation

The Investigation is the portion of the Underwriting process during which information on the "Request" is checked and verified and additional data may be gathered. It is a key component in preparation for the credit decision being taken on whether or not to approve a loan and what the terms and conditions of the loan will be. (*See Attachment 7 - Investigation Checklist*) Investigators:

- Verify authenticity of Verification of Employment and Income letter
- Verify "other income" included on the "Request"
- Call or go to the Applicant's employer to verify employment and income
- Verify income from self-employment with Tax Authority or chartered accountant
- Conduct Site Visit to Applicant's current residence
- Verify property data provided in "Request" with data on Property Documents
- Conduct Site Visit to the real property that is to be purchased/improved and that is intended to be collateral for a loan
- Check Applicant's credit information on Central Bank of Egypt (CBE) database
- Calculate Applicant's monthly income to proposed monthly installment to confirm that the calculation is within Loan Parameters as set forth in the Lender's Credit Policy

- Write an Investigation Memorandum summarizing findings and conclusions, either stating that the “Request” is acceptable or stating why it is not acceptable and what the Applicant might do to rectify the non-compliance
- Send Investigation Memorandum to CP (*See Attachment 8 - Investigation Department Memorandum.*)

Notification of Status of “Request” to Applicant

CP notifies CSR that either the “Request” is acceptable, or is rejected or that additional information is needed.

CSR calls Applicant to report on status of “Request.” If “Request” is not acceptable as is, Applicant is given opportunity to rectify issues of non-compliance and/or to provide additional information.

If “Request” is acceptable, Applicant is advised to pay the lender an Appraisal Fee of (...) LE for property in Cairo or (...) LE for property outside Cairo. (*Finance Department generates a receipt for Applicant and a copy for the File evidencing payment of the fee – See Attachment 3*)

Appraisal

CP sends Engineering or Appraisals a request for an appraisal of the real property to be collateral for the loan. Only those Appraisers on the lender’s list of approved Appraisers can be engaged to provide Appraisals for the lender. (*See Appraisals section in Credit Policy*). This process should include a variety of evaluation methods, such as: market value as established by sale prices of comparable units, investment value and construction (or replacement) costs, with justification and explanation for not providing all three. (*See Appendix G – Sample Appraisal.*)

Engineering or Appraisal department reviews the Appraisal submitted by the Appraiser. If there is disagreement with the Appraisal, Engineering will discuss the issues with the Appraiser. Engineering will send a memorandum to CP indicating either acceptance or rejection of the Loan Application based on the Appraisal. (*See Attachment 9 – Appraisal Department Memorandum.*)

CP advises CSR, who then informs the Applicant, of the acceptance or rejection based on the Appraisal.

Credit Analysis

CP delivers the File to Credit Analysis (CA). This is the final review of the loan application before the credit request is approved or rejected.

- CA reviews the File, including the “Request,” all Property Documents, Investigation Memorandum, Legal Memorandum and Appraisal.
- CA will advise CP if additional information is required.
- CA will calculate LTV.
- CA will calculate debt burden ratio based on Applicant’s salary, income from self-employment or cash flow generated by commercial property.
- CA will write a Credit Memorandum stating its conclusion and recommendation. If recommendation is to reject, CP is notified. If the recommendation is to approve, the loan request is referred to the Credit Committee or others with approval authority. (*See Attachment 10 – Credit Department Memorandum.*)

Construction Loans

- Engineering – Appraisal reviews all architectural and engineering plans.
- Engineering – Appraisal reviews all “hard” and “soft” costs of construction submitted by the Applicant and compiled by the developer.
- Engineering – Appraisal assesses capacity to complete the work required of each major contractor which represents 25% or more of the total cost to construct.
- Independent Appraiser is engaged to prepare an appraisal of the proposed construction, including estimated construction costs at designated stages of completion of construction.
- Appraiser’s estimates are compared to those submitted by the Applicant.
- If Engineering accepts estimates of cost of construction, a disbursement schedule is prepared to allow disbursement of the loan in tranches based on construction completed.
- Engineering inspects construction site and takes digital pictures each time the Borrower requests a disbursement to confirm that all the work required for the disbursement has been completed.
- Disbursements for construction may not exceed (...) % of appraised value or cost of construction, whichever is less.

Authority to Approve

- Credit Committee can approve loans up to and including (...) LE. (*Committee members are*)
- (...) can approve loans up to and including (...) LE.
- (...) can approve loans up to and including (...) LE.
- (...) can approve loans up to and including (...) LE.
- (...) can approve loans in excess of (...) LE.

There can be no delegation of Approval Authority. If the authorized approver is not available, the Loan Application must be presented for Approval at the next highest level of Approval Authority.

Total loans to one Applicant and relatives to the first degree cannot exceed 10% of the lender’s issued and outstanding Capital. ((...) LE, as of (...)). See related notes in credit policy.

All signatures required for approval are affixed to the Credit Memorandum written by Credit Analysis.

CLOSING

Notification of Approval

- Confirm that the Loan Application has been approved
- Notify that Loan Application has been approved.
- Notify applicant that Loan Application has been approved.
- Schedule meeting with,... to sign.

Preparation of Documents

- Prepare a Promissory Note for each year of the life of the loan. (*See Attachment 11 – Promissory Note.*)
- Generate Amortization Schedule.

- Prepare a Trust Receipt if the Applicant does not have a check. *(See Attachment 12 – Trust Receipt.)*
- Calculate premiums for Life Insurance and Fire Insurance. *(See Appendices H and I.)*
- Calculate monthly installment.
- Prepare Contract. *(See Attachment 13 – Contract.)*
- Prepare Power of Attorney for Applicant to sign *(See Attachment 14 – Power of Attorney.)*
- Generate Disbursement Check for (...) % of loan amount, payable to Seller
- Compile file of all documents for the Closing

Closing

Lawyer, Lender's Representative, Applicant and Seller must be at the Closing.

Following signatures are required:

- Applicant and Seller sign (...) original copies of the Contract.
- Applicant signs Powers of Attorney.
- Applicant signs all Promissory Notes

Cash Payments required from Applicant

- (...) % of Loan amount
- (...) month's installment
- (...) months' Life Insurance Premium
- (...) months' Fire Insurance Premium

Check for (...) % of the Loan amount is given to Seller. Remaining (...) % is disbursed to the Seller after the property is registered and the mortgage is recorded.

POST CLOSING

Distribution of Documents

- Send one original Contract and File to (...).
- Send one original Contract to (...).
- Maintain one original Contract in (...).
- Send check to the two insurance companies.

Perfection of Collateral

- Legal takes the Contract to Registry and Publicity Office (REPD) to validate the Contract date. REPD stamps the contract.
- Legal completes a Property Registration Application from REPD which is submitted with copies of the Contract and Power of Attorney.
- REPD requests that Egyptian Survey Authority (ESA) prepare a cadastral plan (survey).
- ESA confirms to REPD that cadastral plan has been made.
- REPD notifies Legal that property accepted for registration subsequent to Borrower paying the Registration Fee (Legal follows up daily on Registration Application until REPD notifies the lender that they are ready to register the property as soon as the fee is paid).
- Legal notifies CSR.
- CSR calls Borrower to pay the 3% Registration Fee.
- Borrower pays the Registration Fee the lender's or accompanies a lawyer to the REPD office to pay directly and receive payment receipt.

- REPD completes the Registration and issues a Blue Contract.
- Legal takes Blue Contract, Power of Attorney and completed Application for Mortgage to apply to REPD for a First Mortgage.
- REPD forwards copy of First Mortgage Application to Egyptian Survey Authority for notation of First Mortgage on Survey Map.
- ESA marks the margin of the Survey map to show First Mortgage.
- REPD makes notation on the margins of the Blue Contract that the property is mortgaged to the lender.
- Legal receives the Blue Contract with the notation of the mortgage.

Payment of Installments

(Lender Describes invoicing procedures)

Applicant – now the Borrower – makes monthly installment payments to (...) or may make the payments in form of cash or check directly to the lender. Borrower must notify the lender one month in advance if he intends to pay an amount in excess of the designated monthly installment. The loan duration will be adjusted according to a schedule attached to the Contract.

Finance does monthly reconciliation of payments to its account from HDB for monthly installments paid by Borrower.

PORTFOLIO MANAGEMENT

Management Reports

- Weekly past due report.
- Internal Audit provides a management letter containing any adverse findings in Audit of closed loan files to Lender's Senior Management.
- Finance provides monthly Cash Flow Report, Balance Sheet, Income Statement and Statement of Equity to Lender's Senior Management.
- (...) provides weekly and monthly reports of Loan Applications in process to Lender's Senior Management.
- (...) provides weekly and monthly reports of loans funded to Lender's Senior Management.

Delinquencies

Finance monitors payments to identify delinquent payments. Finance notifies (...) and Legal of delinquent payments. Customer Service Representative contacts Borrower to inquire about the delinquent payments and adds notes to file regarding the cause of the delinquency and Borrower's intended payment date. It will be helpful if the track record is stored in the data base for quick recall.

Most Borrowers will make their loan payments on or around their Due Dates and a few borrowers will pay with mild periodic reminders. However, some will become seriously delinquent in their payments with such delinquency leading to Foreclosure.

Foreclosure

- Borrower is to be contacted and efforts made to collect the delinquent payments.
- If payment is made within one month, no action is taken.

- If payment is not made within one month, Legal applies to “Court of Expeditious Cases” to assign a “Mortgage Agent” to foreclose on property.
- Mortgage Agent notifies all parties related to the property of the foreclosure proceedings.
- Mortgage Agent sets a foreclosure date. If delinquent loan payments are made, foreclosure is cancelled.
- If the delinquency continues, property is sold at public auction.
- Proceeds from auction are distributed to
 - Mortgage lender for all principal, interest and other charges due
 - Mortgage agent receives his commission as set by the court but not to exceed 3% of the auction price
 - Remaining amount is paid to the Mortgagee (Borrower). If Mortgagee is not present, the remaining amount is deposited in the “Court Treasury.”

Credit Write-offs

Loan amounts not collected from the borrower or from foreclosure will be charged against the lenders reserve for bad loans.

Credit Recovery

Loan amounts previously charged against the lender's reserve for bad loans and then recovered are treated as follows: (.....)

Reports to Borrowers

Finance provides an annual report to each borrower showing total amount of principal reduction, total amount of interest paid, total amount of insurance premiums paid during the year and the principal outstanding as of December 31 of that year. (*See Attachment 15 – Annual Report to Borrower.*)

Loan Audits

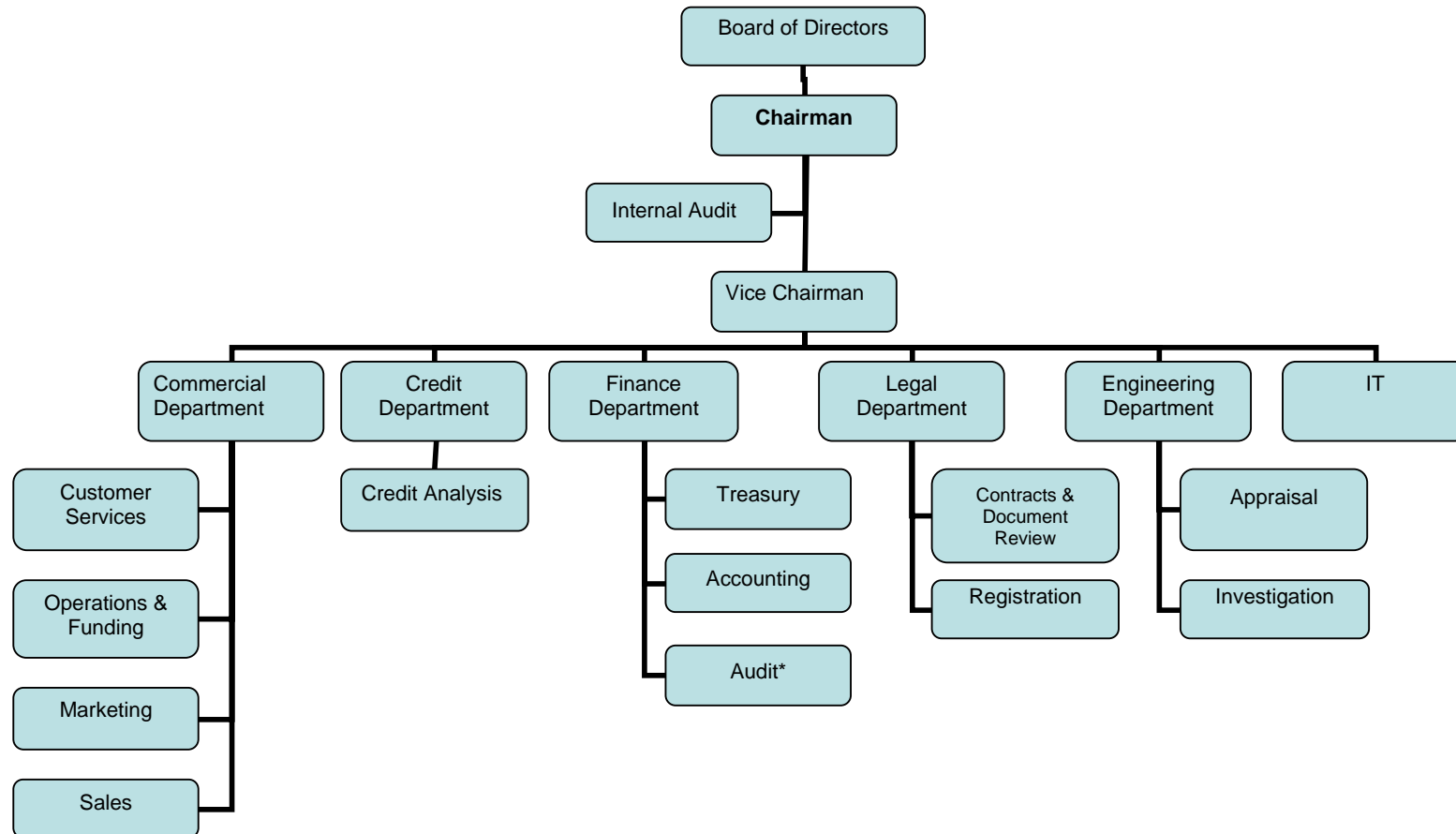
The Audit Committee, comprised of (.....), audits all closed loan files and/or such other files designated by lender and provides the senior management with an audit report of any adverse findings.

Follow-up Inspection of Collateral

Collateral is to be inspected no less frequently that every (...) years after the loan was funded, or at any time that the lender becomes aware of possible deterioration of the collateral. If there has been a decline in value for any reason, the borrower may be required to reduce the outstanding principal of the loan by an amount that restores the loan to an acceptable LTV ratio. In extreme circumstances, repayment of the entire loan may be required or foreclosure proceedings may be initiated. The lender has to re-request the mortgage on the property every 10 years from the date of the initial mortgage.

Attachments of Lender's forms and sample documents:
(attach samples of forms and documents used)

ADDENDUM I - El Taamir Mortgage Finance Company Organizational Chart (Partial)



* Responsible for auditing cash, checks and payment orders prior to disbursements.



Credit Policy and Procedures for Taamir Mortgage Company

CREDIT POLICY FOR TAAMIR MORTGAGE COMPANY

EGYPT FINANCIAL SERVICES

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PREFACE

“The written loan program should be the logical outgrowth of a rational management process, articulating objectives and delegating responsibility. The benefits of a program description lie not so much in the description itself, but rather in the deliberative process by which it is produced. Presumably, the management/lending team will think through the whole process of how funds are intermediated and arrive at some judgment of how risk is assumed. Then by putting this statement in writing, the communication of it is enhanced in terms of both convenience and clarity.”⁴

The written loan program, in effect, becomes a prescribed course of action derived from those options perceived by management to be compatible with The Taamir Company's (Taamir) internal resources and broad objectives.

PURPOSE

The purpose of this Credit Policy is to assure that loans approved and funded by Taamir are in compliance with all laws and regulations of the Arab Republic of Egypt and that they are of such a quality that will not put Taamir's assets at risk. Further, this Credit Policy is intended to provide a framework within which Credit Procedures can be developed and modified as advisable, based on Taamir's experience and the development of the local Mortgage Finance market. Therefore, both the Credit Policy and Credit Procedures are to be distributed to all officers and employees of Taamir, and the officers and employees are charged with understanding and following what is set forth therein.

LEGAL FRAMEWORK

All Mortgage Finance loans will be made in compliance with the:

- rules and procedures set forth in the Executive Regulation of the Law No. 148 for the year 2001;
- Ministerial Decrees No. 100, 101 and 102 for the year 2003 concerning implementation of the provisions of mortgage finance agreement forms;
- approval by the Board of Directors of the Mortgage Finance Authority in its session held on 27 May, 2003 of basic conditions for Mortgage Finance; and,
- parameters approved and set forth by the Board of Directors of Taamir.

As additional laws are passed and further regulations are implemented, this Credit Policy and the accompanying Credit Procedures will be modified to comply with those laws and regulations.

Further, all Mortgage Finance loans are to be considered and analyzed fairly and without prejudice or unwarranted external influence.

⁴ Robert H. Bukowski, "Written Loan Policies: Can They Help?" Burroughs Clearing House, July, 1976,p.41

RISK ENVIRONMENT

- Real property intended to be collateral for a loan may not be legally registered.
- Disparity between high cost of real property and individual income may make it unlikely that a borrower(s) has sufficient income to repay a loan.
- Limited sources of individuals' credit histories may result in some past or current debt outstanding not being identified in the Underwriting process.
- Borrower's lessened inclination to repay a loan if value of property has declined below the outstanding balance of the loan

LOAN PARAMETERS

These are the guidelines that define the acceptable risks for the Mortgage Finance program of Taamir. Typically, none of these parameters may be exceeded on any individual loan. Should experience indicate that modifications are warranted, the Board of Directors or designated officers of Taamir may consider such modifications.

Loan Purpose: purchase, construct or renovate a dwelling (apartment or house), administrative unit or commercial shop.

Loan Size: Minimum: As required by laws or regulations or as experience or market conditions make reasonable, Taamir may establish a minimum loan size that will be set forth in its Credit Procedures.

Maximum: In accordance with Law 148, total exposure to one Applicant and relatives up to the first degree may not exceed ten percent of Taamir's issued and outstanding capital. Taamir's Board of Directors assumes the authority to determine a lesser amount of maximum exposure and grants that same authority to the Chairman and Vice Chairman of Taamir.

Installment Size: As set forth in Law 148, the Mortgage Finance loan monthly installment including principal and interest should not exceed the following limits:

- 40% of the borrower's total income (combined income if there are more than one borrower) with the exception of low-income borrowers, then
- 25% of the low-income borrower's total income (combined income if there are more than one borrower). Total annual income of each low-income borrower must not exceed 12,000 LE and 18,000 LE for a married couple.

Any change in subsequent laws and regulations regarding installment size or maximum income levels for low-income borrowers will be updated in the Credit Procedures.

Loan to Value Ratio (LTV): As set forth in Law 148, the maximum limit for a Mortgage Finance loan is 90% of the appraised value or sales price of the property, whichever is less or 90% of the estimated cost of construction for property proposed to be built. However, El Taamir has established a lower LTV of 85% of appraised value or sales price, whichever is less, and 80% of estimated cost of construction or appraiser's estimated cost of construction, whichever is less. Any change in subsequent laws and regulations regarding installment size will be updated in the Credit Procedures.

Appraisal: A key step in any Mortgage Finance process is the appraisal of the property in the form of a detailed analysis of the value of the property by an expert, objective, honest and independent appraiser. This process should include a variety of evaluation methods, such as: market value as established by sale prices of comparable units, investment value and construction (or replacement) costs.

Credit Policy and Procedures for Taamir Mortgage Company

An “Appraisal” is only as reliable as the “Appraiser” is competent and honest. (See *Underwriting – Appraisers section for selection of Appraisers.*)

Collections: A Mortgage Finance program must have in place an intelligent process to distinguish between the many who want to bring their loan current and the few who cannot or will not pay as agreed. The problem comes in identifying and moving rapidly with people who are beginning to get into trouble. When a customer gets into financial trouble severe enough to risk losing his or her home, it is essential to take the time and effort to understand what has gone wrong and to explore every possible alternative to keep the customer current and avoid the foreclosure process. Legal action should be taken only as a last resort.

Foreclosure: There will come a time when all collection efforts have failed and delinquency continues. Foreclosure procedures will be followed as set forth in Law 148.

TARGET MARKET

Credit-worthy individuals or married couples with verifiable employment history or successful self-employment, between the minimum legal age to enter into contracts and a maximum age not to exceed 65 years throughout the life of the loan, and who qualify for Life Insurance as required by Taamir’s Mortgage Finance Credit Policy. Perspective borrowers are intending to buy, construct or improve properties that are registered or able to be registered.

PRODUCT DESCRIPTION

Mortgage Finance loans will be to individuals for the purpose of purchasing an existing or newly constructed or renovated dwelling, administrative unit or commercial shop or for construction of such real property. They will be direct loans to the borrowers, secured by a first lien on the property or an official mortgage and other forms of collateral and guarantees as deemed appropriate. It may be reasonable to develop new products or modify existing ones due to changes in market conditions.

Detailed descriptions of Taamir’s Mortgage Finance products are to be set forth in the accompanying Credit Procedures, which are to be updated as existing products are modified or new ones developed.

ACCEPTABLE EMPLOYERS

Taamir reserves the right to reject a Loan Application if the Applicant is employed in an industry or with a business entity that might present a risk that is not in compliance with its Credit Policy and Credit Procedures.

TERMS OF ACCEPTANCE

It is mandatory in all cases that the borrower has the ability to generate sufficient cash to repay the loan. The Terms of Acceptance (TOA), the minimum criteria for a borrower to qualify for a loan, are set forth in the accompanying Credit Procedures.

TERMS AND CONDITIONS

In order for the loan to be repaid in a logical, regular manner, repayment terms should be based on what the customer can afford and reflect a realistic pay-back rate. Loans will not be made with the maximum terms just to get the lowest payment possible. Terms and Conditions may change based on experience and market conditions. They are to be set forth in the accompanying Credit Procedures, which are to be updated promptly as changes are approved.

ACCEPTABLE COLLATERAL

While cash flow is the expected source of repaying the Mortgage Finance loans, catastrophes happen and the prudent lender has at least a second way of liquidating the loan. Collateral is this program's secondary source of repayment. The minimum acceptable conditions for the collateral to qualify include:

- First mortgage on real property to be purchased, renovated or constructed, i.e. dwelling and land, if collateral is a house, or on apartment, administrative unit or commercial shop.
- Maximum Loan to Value Ratio – 85% of purchase price or appraised value, whichever is less; 80% of appraised value or cost of construction, whichever is less for construction loans
- Title to the real property must be clear and unencumbered, legally registered and legally saleable.
- There must be no delinquent Real Property taxes.

The property should be examined no less than every five years to make sure of its safety and that there has not been deterioration or other conditions that might have a negative effect on its value or at any time that management becomes aware of adverse changes in the property.

UNDERWRITING

The Underwriting process is the portion of the program during which the Loan Application is evaluated through data gathered, checked and verified in preparation for the Credit Decision being made on whether to grant credit and what the terms and conditions of the loan will be.

It is essential that technically skilled specialists be responsible for Underwriting. The Underwriting process may involve specialists from various departments within Taamir, including:

- Commercial – Customer Service
- Commercial – Operations
- Credit Analysis
- Engineering – Investigation
- Engineering – Appraisals
- Legal – Contracts, Documents Review and Registration

Credit Policy and Procedures for Taamir Mortgage Company

- Finance – Disbursements
- Finance – Loan Servicing

The Underwriting process of the Loan Application requires a thorough investigation of the customer and of the collateral. Essential in this process is a well documented:

- investigation of the borrower(s);
- chain of title; and
- appraisal of the property

The Underwriting process has multiple phases to gather sufficient information to make a sound credit decision:

- Complete Loan Application – “Request for Financing the Purchase of a Residential Unit” (“Request”)
- Initial Screening
- Document Verification
- Data Verification including verification of ability to pay monthly installments
- Collateral Verification

Loan Application

The Applicant(s) should be encouraged to take their time to complete the “Request” form and to supply the required supporting information. This is an important financial transaction and should be treated seriously.

It is imperative that the Applicant understand that a “Request” form that is incomplete and/or does not include the items required for a complete Loan Application will not be processed. All potential borrowers (Applicant) must provide all the data which applies to them. All Applicants on one loan must be credit-qualified and will be required to sign the loan documents and to repay the loan.

Appraisers

Taamir will maintain an internal register of acceptable appraisers. Those appraisers will be selected only from those registered with the Mortgage Finance Authority (MFA) and deemed by Taamir to be independent, competent and trustworthy. To be independent, the appraiser cannot be an employee of Taamir.

They must have demonstrated their competency through education, training and practical experience. Appraisers should be familiar with or have had training in appraisal practices and standards. It is imperative to verify the appraiser’s background and experience in completing appraisal reports. The appraiser’s knowledge and experience in appraising a particular property type and his/her knowledge of a particular geographical area should be prime considerations for selection of an appraiser.

The list of acceptable appraisers will be reviewed periodically, and any who do not comply with Taamir’s parameters will be removed from the internal register and will not be engaged to conduct appraisals.

Brokers

Taamir may accept Loan Applications taken by only those brokers who are included on the list of those approved by the Mortgage Finance Authority. For practical purposes, Taamir may develop its shorter list of brokers from whom to accept Loan Applications; however, those selected brokers must be among those approved by the Mortgage Finance Authority.

Credit Policy and Procedures for Taamir Mortgage Company

Further, Taamir reserves the right to reject any Loan Application that does not comply with this Credit Policy and the accompanying Credit Procedures.

Credit Procedures

The Board of Directors has authorized the Chairman and Vice Chairman and their designates to develop procedures for Underwriting, Closing, Administering, Monitoring and Collecting loans. All Procedures must be in compliance with this Credit Policy and prudent to protect asset quality. Credit Procedures are included in a separate document to facilitate modifications that may be required from time-to-time, but that remain in compliance with the Credit Policy, and do not constitute a change in Credit Policy.

The accompanying **Credit Procedures Manual** sets forth details for processing Loan Applications, including:

- Taking the Loan Application
- Underwriting, including Screening, Document Verification, Credit Investigation, Appraisals and Credit Analysis
- Document Preparation, Closing and Funding
- Perfection of Collateral

Underwriting and Funding loans are only the first steps in managing risk assets. After the loans have been funded, it is imperative that there be procedures in place to monitor the quality of Taamir's Loan Portfolio for the purpose of identifying assets at risk at the earliest possible moment.

The accompanying **Credit Procedures Manual** sets forth details for post-closing functions, including:

- Account Administration
- Loan Collection
- Delinquent Loans
- Foreclosures

CREDIT APPROVAL AUTHORITY

It is prudent that there be more than one reviews and assessments of a Loan Application and that it be analyzed from various perspectives, such as legal, property value and credit-worthiness; however, "review and concurrence" do not constitute Approval. The actual authority to approve a Loan Application is determined by the Board of Directors and is set forth in the Credit Procedures. There can be no delegation of Approval Authority unless permitted in writing by the Board of Directors. If the authorized approver is not available, the Loan Application must be presented for Approval at the next highest level of Approval Authority.

Based on factors such as experience and increased volume, the Board of Directors may revise the Approval Authority, both by individuals authorized to approve Loan Applications and amount of the Approval Authority. Such revisions will be noted in the Credit Procedures.

Loan Underwriters have the authority to reject Loan Applications failing TOA, LTV or for some other reason that the Application is not in compliance with this Credit Policy and/or its accompanying Credit Procedures. However, they do not have Approval Authority

REPORTS TO BOARD OF DIRECTORS

Credit Policy and Procedures for Taamir Mortgage Company

It is the responsibility of the Board of Directors (Board) to know and understand the quality and risks inherent in Taamir's Mortgage Finance loan portfolio. Consequently, each Board member is to receive monthly reports reflective of Taamir's loan portfolio no later than the first Board meeting after the end of a month. Such reports should include but not be limited to:

- Loans approved each month
- Loans funded each month
- Performance of Portfolio including delinquent loans
- Stratification of the portfolio that reflects potential risks such as geographic concentrations and other risks that may be identified as the portfolio increases.
- **Loans to Board members or senior executives.**⁵

PORTFOLIO MANAGEMENT

At a minimum, the Chairman, Vice Chairman, and General Managers and Deputy General Managers of each Department should receive reports reflecting production and quality, including summary of loan applications that were rejected, as well as those that were approved or are in process. Such reports should be distributed weekly, monthly and quarterly, as deemed appropriate to insure effective monitoring, oversight and management of the loan portfolio.

CONCLUSION

It is Taamir's vision to enhance accessibility to affordable housing, especially for medium and low income individuals in Egypt by expanding and improving the housing finance market. The purpose of Taamir's Mortgage Finance program, as set forth in this Credit Policy and the accompanying Credit Procedures, is to provide individuals and families in Egypt the ability to purchase, construct, or rehabilitate and improve apartments, houses, administrative units and commercial shops.

⁵ Although not specifically addressed in the Real Estate Finance Law, international practices sometimes limit "insider loans".

Credit Policy and Procedures for Taamir Mortgage Company

THIS CREDIT POLICY IS APPROVED BY THE BOARD OF DIRECTORS OF THE TAAMIR COMPANY AS INDICATED BY THE SIGNATURES AFFIXED BELOW:

DESIGNEE: _____

Name of Signatory	Signature	Date
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

CREDIT PROCEDURES FOR TAAMIR MORTGAGE COMPANY

EGYPT FINANCIAL SERVICES

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Credit Policy and Procedures for Taamir Mortgage Company

This section of Taamir's **Credit Manual** sets forth **Credit Procedures** to be followed regarding Mortgage Finance including:

- Product Description
- Terms of Acceptance
- Terms and Conditions
- Loan Application
- Underwriting, including Screening, Document Verification, Credit Investigation, Appraisals and Credit Review
- Document Preparation, Closing and Funding
- Perfection of Collateral
- Account Administration
- Loan Collection
- Delinquent Loans
- Credit Write-Offs
- Credit Recoveries

PRODUCT DESCRIPTION

Fixed rate, fixed term product: Mortgage Finance loans will be

- closed-end, rather than revolving loans,
- with a specific repayment term,
- a fixed interest rate as permitted by Law 148 and other relevant laws, subject to adjustment annually as reviewed on 31 December each year,
- and a fixed monthly payment,
- on a maximum maturity of 20 years.

TERMS OF ACCEPTANCE

- Minimum Age: Minimum legal age to enter into a contract
- Loans will be made for the purchase, construction or improvement of a free standing dwelling, apartment, administrative unit or commercial shop
- Must provide Verification of Identity
- Must provide Verification of Employment and Income (*See Appendix A – Sample Verification of Employment and Income.*)
- Must provide evidence of ownership (*See Appendix B – Sample Deed of Ownership.*)
- Must provide Copy of Construction License or Construction Permit (*See Appendix C – Sample Construction License/Permit.*)
- Must provide Confirmation from Tax Authority that real estate taxes have been paid for last 10 years or for the term of current ownership, if less than 10 year (*See Appendix D – Confirmation of Tax Payments.*)
- Must provide Form 19 – History of Ownership (*See Appendix E – Sample Form 19 – History of Ownership.*)
- Must have no adverse findings in Central Bank of Egypt credit information database

Credit Policy and Procedures for Taamir Mortgage Company

- Loan cannot exceed 85% of purchase price of property or appraised value, whichever is less, or 80% of estimated cost of construction or appraisal, whichever is less
- Completion of Taamir's loan application – Request for Funding the Purchase of Residential Unit (“Request”)
- Borrower(s) qualify for Life Insurance
- Borrower(s) will not exceed age 65 during the tenor of the loan
- Debt Burden: monthly installment may not exceed:
 - 40% of the borrower's total income (combined income if there are more than one borrower) with the exception of low-income borrowers, then
 - 25% of the low-income borrower's total income (combined income if there are more than one borrower). Total annual income of each low-income borrower must not exceed 12,000 LE and 18,000 LE for a married couple.

TERMS AND CONDITIONS

- Size of Loans: Minimum: no minimum Maximum: total exposure to one Applicant and relatives up to the first degree may not exceed ten percent of Taamir's issued and outstanding capital which is 187,000,000LE as of date of these Credit Procedures (*see note in Credit Policy*)
- Tenors of Loans: Minimum: no minimum Maximum – 20 years
- Interest Rate: 13% for 2006 – to be reviewed and adjusted on December 31 of each year, or more frequently as deemed appropriate by the Board
- Fees: Application Processing – 150LE; Appraisal Fee – 750LE (in Cairo) or 950LE (outside Cairo); Administration Fee - 2% of loan amount at closing
- 1 monthly installment paid in advance at closing
- Life Insurance: 13 months' premium in advance paid by borrower at closing Insurance policy must be issued by Alico
- Fire Insurance: 12 months' premium in advance paid by borrower at closing Insurance policy must be issued by Al Charck Insurance Co.
- Pledge not to sell property during registration process (*included in Contract*)
- Pledge not to lease or rent property without 30-day notification to Taamir (*included in Contract*)

LOAN APPLICATION

Applicant, who must be the intended purchaser of the property and borrower, submits the Loan Application to a Customer Service Representative (CSR).

The items which constitute a complete Loan Application include:

- Completed, signed and dated “**Request for Financing the Purchase of a Residential Unit**” (“Request”). “Request” must include basic terms and conditions for a Mortgage Finance loan and the Applicant must sign the acknowledgement included in the “Request” that he has been advised of and

Credit Policy and Procedures for Taamir Mortgage Company

understands those basic terms and conditions. (See Attachment 1 - Request for Financing the Purchase of a Residential Unit form)

- Legally recognized form of identification displaying sufficient personal information to verify the applicant(s) (Egyptian ID card or Passport)
- Verification of Employment and Income (See Appendix A – Letter from employer on employer’s letterhead confirming employment and salary) or Tax Receipt or Certificate from chartered accountant if self-employed
- Suitable evidence of “Other Income” noted on Loan Application
- Copy of Deed of Ownership (Blue Contract) provided to the Buyer by the Seller to confirm that the Seller is the owner of the property. If the Seller does not have the Deed of Ownership, a REPD registered Contract of Ownership may be substituted.
- Copy of Construction License or Construction Permit to confirm that unit was legally constructed according to the License or Permit
- Confirmation from Tax Authority that real property taxes (A’wayed) have been paid for last 10 years or for term of current ownership, if less than 10 years. Seller provides this to the Buyer.
- Form 19 – History of Ownership from Publicity & Notary Office of the Ministry of Justice
- Tax receipt for self-employed (See Appendix F – Sample Tax Receipt.)

The following additional documents are required for loans for construction and improvement of property:

- Architectural and engineering plans
- Detailed budget of all “hard costs” (labor, materials and subcontract work) and “soft costs” (architect, engineering fees, costs of permits) needed to complete the project, including a contingency reserve to cover unforeseen events
- Names of major contractors which represent 25% or more of the total construction costs
- Signed copy of the building contract with each major contractor.

UNDERWRITING

The Underwriting process is the portion of the program during which the Loan Application is evaluated through data gathered, checked and verified in preparation for the Credit Decision being made on whether to grant credit and what the terms and conditions of the loan will be.

Initial Screen

The Initial Screen is conducted by the Customer Service Representative (CSR).

To verify the identity of the Applicant, the CSR should:

- request the Applicant’s Personal Identification card or Passport (ID)
- make a copy of it to become a part of the Loan Application

Credit Policy and Procedures for Taamir Mortgage Company

- verify that the Applicant is the individual represented by the form of identification by verifying that the information on the ID is the same as that on the “Request. Any discrepancies should be clarified by a written note to the Loan Application.

The CSR should verify that:

- the “Request” is complete, signed and dated by all Applicants
- all required documents have been provided
- the minimum Terms of Acceptance (TOA) are met or exceeded. If any TOA cannot be verified at this juncture, they will be verified in subsequent steps of the Underwriting Process.

If the above conditions have not been met, the Loan Application is returned to the Applicant(s) with an explanation of why it is being returned. This is not a rejected loan unless the Applicant(s) chooses not to provide the required information and/or document.

If the above conditions are met, the CSR requests a Serial Number for the new Loan Application File (File) from the Contact Person (CP) and completes a Customer Service Checklist (CSC), confirming that the Loan Application is complete and meets minimum Terms of Acceptance. The CSC becomes a part of the File. (See Attachment 2 – Customer Service Checklist – Attachment 2)

- Upon the Applicant’s payment of a 150LE non-refundable processing fee, the File is given to the CP to submit for further Underwriting. (*Finance Department generates a receipt for Applicant and a copy for the File evidencing payment of the fee – See Attachment 3*)
- CP reviews the File to confirm its completeness
- CP delivers the File to Commercial – Operations (Operations)
 - Operations reviews all documents in the File to confirm completeness and confirms that the calculations on the “Request” are accurate.
 - Operations scans the documents pertaining to the real property and manually enters the information in the “Request” into an electronic format of the “Request” so the File can be accessed by computer by staff in all departments.
 - Operations returns the File to CP.

Document Review and Investigation – conducted concurrently

- CP sends a memorandum and the CSC to Legal – Contracts & Document Review (Legal) requesting a review of the 4 documents pertaining to the real property. (*See Attachment 4 - Memorandum to Legal*)
- CP sends a memorandum and CSC to Engineering – Investigation requesting credit analysis pertaining to the “Request.” (*See Attachment 5 - Memorandum to Investigation*)

Document Review

It is imperative that the four documents pertaining to the real property that will be collateral, therefore, a secondary source of repayment for a loan, be in order. The Legal Department is charged with conducting a review of those documents.

- Legal reviews the documents pertaining to the real property.
- If they are not complete, bona fide or for some other reason to not comply with Taamir Credit Policy and Credit Procedures, Legal sends a memorandum to CP with an appropriate explanation and instructions for what is necessary for the Applicant to rectify the non-compliance.
- If Legal's assessment is that the documents are acceptable, Legal sends CP a memorandum confirming their acceptability. (See *Attachment 6 – Legal Department Memorandum*)

Investigation

The Investigation is the portion of the Underwriting process during which information on the “Request” is checked and verified and additional data may be gathered. It is a key component in preparation for the credit decision being taken on whether or not to approve a loan and what the terms and conditions of the loan will be. (See *Attachment 7 - Investigation Checklist*) Investigators:

- Verify authenticity of Verification of Employment and Income letter
- Verify “other income” included on the “Request”
- Call or go to the Applicant’s employer to verify employment and income
- Verify income from self-employment with Tax Authority or chartered accountant
- Conduct Site Visit to Applicant’s current residence
- Verify property data provided in “Request” with data on Property Documents
- Conduct Site Visit to the real property that is to be purchased/improved and that is intended to be collateral for a loan
- Check Applicant’s credit information on Central Bank of Egypt (CBE) database
- Calculate Applicant’s monthly income to proposed monthly installment to confirm that the calculation is within Loan Parameters as set forth in Taamir’s Credit Policy
- Write an Investigation Memorandum summarizing findings and conclusions, either stating that the “Request” is acceptable or stating why it is not acceptable and what the Applicant might do to rectify the non-compliance
- Send Investigation Memorandum to CP (See *Attachment 8 - Investigation Department Memorandum.*)

Notification of Status of “Request” to Applicant

CP notifies CSR that either the “Request” is acceptable, or is rejected or that additional information is needed.

CSR calls Applicant to report on status of “Request.” If “Request” is not acceptable as is, Applicant is given opportunity to rectify issues of non-compliance and/or to provide additional information.

Credit Policy and Procedures for Taamir Mortgage Company

If “Request” is acceptable, Applicant is advised to pay Taamir an Appraisal Fee of 750LE for property in Cairo or 950LE for property outside Cairo. (*Finance Department generates a receipt for Applicant and a copy for the File evidencing payment of the fee – See Attachment 3*)

Appraisal

CP sends Engineering – Appraisals a request for an appraisal of the real property to be collateral for the loan. Only those Appraisers on Taamir’s list of approved Appraisers can be engaged to provide Appraisals for Taamir. (*See Appraisals section in Credit Policy*). This process should include a variety of evaluation methods, such as: market value as established by sale prices of comparable units, investment value and construction (or replacement) costs, with justification and explanation for not providing all three. (*See Appendix G – Sample Appraisal.*)

Engineering – Appraisals reviews the Appraisal submitted by the Appraiser. If there is disagreement with the Appraisal, Engineering will discuss the issues with the Appraiser. Engineering will send a memorandum to CP indicating either acceptance or rejection of the Loan Application based on the Appraisal. (*See Attachment 9 – Appraisal Department Memorandum.*)

CP advises CSR, who then informs the Applicant, of the acceptance or rejection based on the Appraisal.

Credit Analysis

CP delivers the File to Credit Analysis (CA). This is the final review of the loan application before the credit request is approved or rejected.

- CA reviews the File, including the “Request,” all Property Documents, Investigation Memorandum, Legal Memorandum and Appraisal.
- CA will advise CP if additional information is required.
- CA will calculate LTV.
- CA will calculate debt burden ratio based on Applicant’s salary, income from self-employment or cash flow generated by commercial property.
- CA will write a Credit Memorandum stating its conclusion and recommendation. If recommendation is to reject, CP is notified. If the recommendation is to approve, the loan request is referred to the Credit Committee. (*See Attachment 10 – Credit Department Memorandum.*)

Construction Loans

- Engineering – Appraisal reviews all architectural and engineering plans.
- Engineering – Appraisal reviews all “hard” and “soft” costs of construction submitted by the Applicant and compiled by the developer.
- Engineering – Appraisal assesses capacity to complete the work required of each major contractor which represents 25% or more of the total cost to construct.
- Independent Appraiser is engaged to prepare an appraisal of the proposed construction, including estimated construction costs at designated stages of completion of construction.

Credit Policy and Procedures for Taamir Mortgage Company

- Appraiser's estimates are compared to those submitted by the Applicant.
- If Engineering accepts estimates of cost of construction, a disbursement schedule is prepared to allow disbursement of the loan in tranches based on construction completed.
- Engineering inspects construction site and takes digital pictures each time the Borrower requests a disbursement to confirm that all the work required for the disbursement has been completed.
- Disbursements for construction may not exceed 80% of appraised value or cost of construction, whichever is less.

Authority to Approve

- Credit Committee can approve loans up to and including 250,000LE. (*Committee members are GM Credit, GM Finance, GM Legal, GM Engineering, GM IT*)
- Vice Chairman can approve loans up to and including 1,000,000LE.
- Chairman can approve loans up to and including 1,500,000LE.
- Executive Committee of Board of Directors can approve loans up to and including 3,000,000. (*Committee members are Vice Chairman + 4 other members of Board of Directors.*)
- Board of Directors can approve loans in excess of 3,000,000LE

There can be no delegation of Approval Authority. If the authorized approver is not available, the Loan Application must be presented for Approval at the next highest level of Approval Authority.

Total loans to one Applicant and relatives to the first degree cannot exceed 10% of Taamir's issued and outstanding Capital. (*187,000,000LE, as of February, 2006*) see related notes in Credit Policy.

All signatures required for approval are affixed to the Credit Memorandum written by Credit Analysis.

CLOSING

Notification of Approval

- CP confirms to CSR that the Loan Application has been approved
- CP notifies Operations – Funding (Funding) and Legal that Loan Application has been approved.
- CSR notifies Applicant that Loan Application has been approved.
- CSR schedules meeting with Operations – Funding, Applicant and Seller

Preparation of Documents

- Funding prepares a Promissory Note for each year of the life of the loan. (*See Attachment 11 – Promissory Note.*)

Credit Policy and Procedures for Taamir Mortgage Company

- Funding generates Amortization Schedule.
- Funding prepares a Trust Receipt if the Applicant does not have a check. (See *Attachment 12 – Trust Receipt.*)
- Funding calculates premiums for Life Insurance and Fire Insurance. (See *Appendices H and I.*)
- Funding calculates monthly installment.
- Legal prepares Contract. (See *Attachment 13 – Contract.*)
- Legal prepares Power of Attorney for Applicant to sign (See *Attachment 14 – Power of Attorney.*)
- Finance generates Disbursement Check for 90% of loan amount, payable to Seller
- Funding compiles file of all documents for the Closing
- Funding requests an account in name of Applicant at Housing and Development Bank (HDB)

Closing

Funding Representative, Applicant and Seller must be at the Closing.

Following signatures are required:

- Applicant and Seller sign 5 original copies of the Contract.
- Applicant signs Powers of Attorney.
- Applicant signs all Promissory Notes

Cash Payments required from Applicant

- 2% of Loan amount
- 1 month's installment
- 13 months' Life Insurance Premium
- 12 months' Fire Insurance Premium

Check for 90% of the Loan amount is given to Seller. Remaining 10% is disbursed to the Seller after the property is registered and the mortgage is recorded.

POST CLOSING

Distribution of Documents

- CP sends one original Contract and File to Finance.
- CP sends one original Contract to Legal.
- CP maintains one original Contract and copy of File in Commercial Department files.
- Finance sends check to the two insurance companies.

Perfection of Collateral

- Legal takes the Contract to Registry and Publicity Office (REPD) to validate the Contract date. REPD stamps the contract.

Credit Policy and Procedures for Taamir Mortgage Company

- Legal completes a Property Registration Application from REPD which is submitted with copies of the Contract and Power of Attorney.
- REPD requests that Egyptian Survey Authority (ESA) prepare a cadastral plan (survey).
- ESA confirms to REPD that cadastral plan has been made.
- REPD notifies Legal that property can be registered subsequent to Borrower paying the Registration Fee (Legal follows up daily on Registration Application until REPD notifies Taamir that they are ready to register the property as soon as the fee is paid).
- Legal notifies CSR.
- CSR calls Borrower to pay the 3% Registration Fee.
- Borrower pays the Registration Fee at Taamir or accompanies a lawyer to the REPD office to pay directly.
- REPD completes the Registration and issues a Blue Contract.
- Legal takes Blue Contract, Power of Attorney and completed Application for Mortgage to apply to REPD for a First Mortgage.
- REPD forwards copy of First Mortgage Application to Egyptian Survey Authority for notation of First Mortgage on Survey Map.
- ESA marks the Survey map to show First Mortgage.
- REPD makes notation on the margins of the Blue Contract that the property is mortgaged to Taamir.
- Legal receives the Blue Contract with the notation of the mortgage.

Payment of Installments

Applicant – now the Borrower – makes monthly installment payments to the account in his/her name at Housing Development Bank (HDB) or may make the payments in form of cash or check directly to El Taamir. Borrower must notify Taamir one month in advance if he intends to pay an amount in excess of the designated monthly installment. The loan duration will be adjusted according to a schedule attached to the Contract.

Finance does monthly reconciliation of payments to its account from HDB for monthly installments paid by Borrower.

PORTFOLIO MANAGEMENT

Management Reports

- Finance provides a default report weekly and monthly to Vice Chairman and Commercial – Operations Department.
- Internal Audit provides a management letter containing any adverse findings in Audit of closed loan files to Vice Chairman and Chairman.
- Finance provides monthly Cash Flow Report, Balance Sheet, Income Statement and Statement of Equity to Vice Chairman and Chairman.
- Finance provides monthly Treasury report showing status of investments (amounts, placements and type of instrument).

Credit Policy and Procedures for Taamir Mortgage Company

- Commercial provides weekly and monthly reports of Loan Applications in process to Vice Chairman and Chairman.
- Commercial provides weekly and monthly reports of loans funded to Vice Chairman and Chairman.

Delinquencies

Finance monitors payments to identify delinquent payments, with access to HDB payments database and internal records of payments made directly to El Taamir. Finance notifies Commercial and Legal of delinquent payments. Customer Service Representative contacts Borrower to inquire about the delinquent payments and adds notes to file regarding the cause of the delinquency and Borrower's intended payment date.

Most Borrowers will make their loan payments on or around their Due Dates and a few borrowers will pay with mild periodic reminders. However, some will become seriously delinquent in their payments with such delinquency leading to Foreclosure.

Foreclosure

- Borrower is to be contacted and efforts made to collect the delinquent payments.
- If payment is made within one month, no action is taken.
- If payment is not made within one month, Legal applies to "Court of Expeditious Cases" to assign a "Mortgage Agent" to foreclose on property.
- Mortgage Agent notifies all parties related to the property of the foreclosure proceedings.
- Mortgage Agent sets a foreclosure date. If delinquent loan payments are made, foreclosure is cancelled.
- If the delinquency continues, property is sold at public auction.
- Proceeds from auction are distributed to
 - Mortgage lender for all principal, interest and other charges due
 - Mortgage agent receives his commission as set by the court but not to exceed 3% of the auction price
 - Remaining amount is paid to the Mortgagee (Borrower). If Mortgagee is not present, the remaining amount is deposited in the "Court Treasury."

Reports to Borrowers

Finance provides an annual report to each borrower showing total amount of principal reduction, total amount of interest paid, total amount of insurance premiums paid during the year and the principal outstanding as of December 31 of that year. (*See Attachment 15 – Annual Report to Borrower.*)

Loan Audits

The Audit Committee, comprised of Deputy General Managers of Audit, Legal and Finance departments and General Manager of Commercial Department, audits all

Credit Policy and Procedures for Taamir Mortgage Company

closed loan files and/or such other files designated by the lender and provides the Vice Chairman and Chairman an audit report of any adverse findings.

Follow-up Inspection of Collateral

Collateral is to be inspected no less frequently than every 5 years after the loan was funded, or at any time that El Taamir becomes aware of possible deterioration of the collateral. If there has been a decline in value for any reason, the borrower may be required to reduce the outstanding principal of the loan by an amount that restores the loan to an acceptable LTV ratio. In extreme circumstances, repayment of the entire loan may be required or foreclosure proceedings may be initiated.

Credit Policy and Procedures for Taamir Mortgage Company

Attachments of Lender's forms and sample documents:

(attach samples of forms and documents used)

Attachment 1 - Loan Application –
"Request for financing the Purchase of a Residential Unit"

Attachment 2 – Customer Service Checklist

Attachment 3 – Receipt for Fee Paid

Attachment 4 – Memorandum to Legal

Attachment 5 – Memorandum to Investigation

Attachment 6 – Legal Department Memorandum

Attachment 7 – Investigation Checklist

Attachment 8 – Investigation Department Memorandum

Attachment 9 – Appraisal Department Memorandum

Attachment 10 – Credit Department Memorandum

Attachment 11 – Promissory Note

Attachment 12 – Trust Receipt

Attachment 13 – Contract

Attachment 14 – Power of Attorney

Attachment 15 – Annual Report to Borrower

Appendix A – Sample Verification of Employment and Income

Appendix B – Sample Deed of Ownership

Appendix C – Sample Construction License/Permit

Appendix D – Sample Confirmation of Tax Payments

Appendix E – Sample Form 19 – History of Ownership

Appendix F – Sample Tax Receipt for Self-employed Applicant

Appendix G – Sample Appraisal

Appendix H – Sample Life Insurance Policy

Appendix I – Sample Fire Insurance Policy

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ADDENDUM V – FORMAT FOR JOB DESCRIPTIONS

Title: *(Must be precise title approved by HR)*

Date Approved: *(Include date originally approved and dates of all revisions)*

Reports to: *(Use title of position reporting to, not name of person in that position)*

Supervisory Responsibility: *(Use titles of jobs reporting to this position, not names of people reporting to this position.)*

Job Summary: *(This is a brief, concise 2 – 3 sentences summary of this job stating what is done, how it is done and why it is done.)*

Primary Tasks and Responsibilities: *(Essential functions of the job; 6 – 12 tasks required to perform this job; use specific action words such as “develop and implement use of reports to be used by management to monitor the Mortgage Finance loan portfolio.”)*

Other Tasks and Responsibilities: *(Non-essential functions that are important to the job but are not essential functions)*

Competencies:

Skills: *(abilities needed to execute job duties)*

Knowledge: *(areas of specialty or expertise and education/training required to attain such expertise)*

Behavior: *(characteristics an employee must display in the job, such as, “ability to relate to loan applicant and maintain a professional demeanor.”)*

Language Proficiency: *(list languages and level of proficiency required)*

Qualifications: *(Required level of education completed; specialized training, etc.)*

ADDENDUM VI – MANAGEMENT COMMENTS

Comments from Vice-Chairman, Aly El Laban

Referring to your e mail concerning Ms. McNeil's report relative to our Credit policy procedure,

Following are our comments on the report :

1-Skills and knowledge of Staff :

El Taamir does have experienced loan officers with previous bank training and an independent Credit department.

2- Verification Of Identity :

Identity of the client is always verified. However as regards criminal records the current procedure in Egypt would involve finger printing the client at a police station and would be too cumbersome.

The establishment of a functioning credit bureau should solve this.

3- Employment History :

Consideration is given to length of employment particularly for expatriate Egyptians by the credit Committee.

4- The credit bureau Estelaam will be very useful providing delinquency history for those not currently covered by the central bank.

5- it is a bit early days to achieve a meaningful analysis of portfolio concentration profitability of product type, delinquency rate, etc.

However current plans to establish an ALM committee and more market experience should solve the problems shortly. Care is taken to contact delinquent clients as soon as possible and legal action is only a last resort.

Despite the lee way in the law it is not the company's policy to grant up to **10 %** of issued capital to related clients and no such cases exist.

Process time :

Process time has substantially decreased during the past months and is now about 2-3 weeks on average with credit committee meetings scheduled twice per week.

Delays are not so much due to any complexity in the underwriting process but, as shown by the companies statistics, are mainly due to incomplete information, lack of documentation or changes requested by the client in their applications.

As you are aware various offers are currently under study for a complete integrated IT system to be compatible with MEA reporting requirements and at reasonable cost. Any suggestions from your part would be highly appreciated.

Fall-out Rate :

This is an important point & this issue is discussed in the weekly management meetings during which the questions mentioned in the report are regularly raised.

Recommendations:

This are most useful and in line with current company objectives:

- The current manual is a first draft and is of course subject to development.
- Certain recommendations have already been made by the Chairman and myself and it has been redistributed to the various departments for further study.
- An Organization Chart and work flow charts for each sector and internal work flows between departments exist. Full copies plus job descriptions were handed to Mr. Asser for translation last month.
- Those documents have been authenticated by our Board / Executive Committee .

We highly appreciate Ms. McNeil's recommendations and input and will take them into full consideration in future.

With best regards,

& looking forward to our meeting tomorrow.

Aly El Labban.
Vice Chairman & Managing Director.
Taamir Mortgage Co.



ADDENDUM VI - continued

Credit Policy Enhancement Presentation to Taamir Management Team

DATE & TIME: March 6, 2006 - 10:30 AM

ATTENDEES:

EFS		TMC		
Mr. Allen Decker	AD	Eng. Magd El Dien Ibrahim	<i>Chairman</i>	MDI
Mr. Kevin O'Brien	KOB	Mr. Aly Labban	<i>Vice Chairman</i>	AL
Ms. Amal Ezz El Din	AE	Mr. Abdulah Roshdy	<i>Deputy General Manager (DGM) Credit</i>	AR
Mr. Aser Obeid	AO	Mr. Tarek Zohor	<i>DGM Finance</i>	TZ
Ms. Jane McNeil	JM	Mr. Khaled El Abrikgy	<i>DGM Audit</i>	KA
		Mr. Mohamed El Kahky	<i>DGM IT</i>	MK
		Mr. Ahmed Hesham	<i>GM HR & Administration</i>	AH
		Ms. Nevin El Zahed	<i>Marketing Manager</i>	NZ
		Mrs. Heba Qabadaya	<i>Chairman Office Manager</i>	HQ

MEETING IDENTIFICATION:

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GOALS OF THE PRESENTATION:

This presentation is part of a short term assignment to enhance the credit policy and procedures of El Taamir Mortgage Company.

NOTES AND DISCUSSION POINTS:

General: MDI pointed out the following points:

- Taamir will send 4 to 5 staff to the next Mortgage Association training program, that will take place next week.
- Obtaining the criminal record of the clients is difficult to get.
- More emphasis should be paid on previous employment history (already applied by the company).
- Delinquent client should be followed up, and the outcome of contacting/visiting the client has to be properly reported, so any one can track the contacts and follow-up made. MK clarified that the current system has the option to report follow up activities with clients, so it can be retrieved electronically. KOB commented that this has to be taken into



consideration in the new system, as the loan officers are usually busy in generating more loans, digital recording will be more convenient.

Maximum Loan Amount: AL commented that the maximum loan amount has been stated in the law to be 10% of the loans portfolio. This has been stated specially for banks, as they have corporate clients who may be granted very large amount. As for MFCs, the probability to lend one client a large amount (up to 10%) is minimal.

Minimum Prepayment Amount: This issue has been raised in one of the board meeting, and it is still being studied. To be finalized soon

Turn-around Time: AL informed that the disbursement average time of one loan takes around 2 to 3 weeks, however the company has special agreements which consume less time, for example the mortgage loans of the units sold by Arab Land Bank is approved in 3 to 4 days. MDI confirmed that TMC is still receiving complains regarding the lengthy procedures, part of the lengthy process lies in investigation, TMC investigates clients using its staff, MDI believes that the operation will be easier if more data on clients is available to lender, however, the work-flow process still needs to be reduced.

In the early stages of the company, TMC staff were afraid of approving loans as it could go into default, however this attitude is improving, yesterday TMC approved 8 loans in one day.

Rejected Cases: It is important to study the rejected cases to know the reasons, and it will be better to convert the rejected cases into new loans, and even if the case is still rejected, the care paid to rejected clients will leave good impression about mortgage lending.

On-job Rotation: MDI believes that this is very important, as no one of the staff knows about the other department. Conducting general rotation will create stronger staff.

Audit Committee: TMC formed an audit committee of non-executive staff to audit and prepare manuals as well as loans.

Appraisal: TMC follow several steps in choosing an appraiser:

- An appraiser is chosen form the MFA list,
- The location of the appraiser to the property is taken into consideration,
- The appraiser is requested to comply with a special format designed by TMC,
- Finally, TMC is preparing their own data base on different properties and different locations value.

MDI commented that no one will ever know the accuracy level of the appraisal unless he foreclose, the accurate appraisal should set a fair value and the property value should increase by time, so the appraisal at foreclosure time must reflect the appreciation in price, if not, this means the earlier appraisal had a defect.⁶

Software: MDI stated that it is important to have the new software now, and it should include all departments even finance. AL commented that it is urgent to have the new software ASAP, and preferably to be compatible to the MFA software. AL suggested that a group of companies could request a company to develop a software, and all of these share the cost of development, this could be managed by the Mortgage Association, also we need to develop a big data base. TMC is currently in the process of searching a new professional software and they are thinking of sharing some software applications with the Mortgage Brokers, in order to ensure that all requirements have been fulfilled by the broker. (1)

Property Flipping: TMC is experiencing a new phenomena, some clients come to TMC to buy properties, keep it for sometime (1 year), sell it at an appreciated price earning 30-40% profit, and obtain a new mortgage on a new property. MDI commented: we are happy to see this, we are making money of mortgages, and so is the client, it is good to see clients thinking positively.

⁶ Taking into consideration that all conditions remain the same; i.e. no change in the Property, no natural risks...etc.



Work Experience: MDI emphasized on the importance of knowing the previous employment history if the current employment is still recent.

Credit Scoring: MDI also emphasized on not rejecting any client, however, TMC can make a scoring to their clients, and according to the client and loan conditions, TMC could lower the loan amount if encountered a certain risk. (Not recommended by itself as it is very subjective system).

Job Descriptions: MDI emphasized on revisiting the job description, and making advantage of the Job Description Format given in the Workshop by JM. MDI stated that the Job description is very important to inform the employees about their duties, how are they going to be appraised and even in courts, the first requirement of the jury in verdicts is the employee job description.

REQUIRED FOLLOW-UP:

1. Arrange a meeting between Eng. Ibrahim Sabry and Eng. Mohamed El Kahky

ACRONYMS:

TMC Taamir Mortgage Company

Aser Obeid