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# MORTGAGE FINANCE TRAINING AND CAPACITY BUILDING

EGYPT FINANCIAL SERVICES PROJECT  
TECHNICAL REPORT #60

**MAY 19, 2006**

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

## DATA PAGE

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

KRA: KRA:1.3 Real Estate Professions Stimulated  
Industry brought to internal standards & other  
services developed

Activity: Activity:1.3.2 Identify and review training package  
for similar

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Mortgage Finance Training and Capacity Building

Date: May 19, 2006

### List of Key Words Contained in Report:

Training, Mortgage Finance, Egypt Financial Services, Mortgage Finance Authority (MFA), Egyptian Mortgage Association (EMA), Egyptian Bankers Institute (EBI), ShoreBank International Ltd (SBI)

This publication was made possible through support provided by the Office of Financial and Information Technology, U.S. Agency for International Development, under the terms of Contract No. 263-C-00-05-00003-00. The opinions expressed herein are those of the author(s) and do not necessarily reflect the views of the U.S. Agency for International Development.

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## ACRONYMS

CAMELS	Capital, Assets, Management, Earnings, Liquidity, and Sensitivity
CBE	Central Bank of Egypt
ELF	Egyptian Liquidity Authority
EBI	Egyptian Banking Institute
EMA	Egyptian Mortgage Association
EPMMC	Egyptian Primary Mortgage Market Course
EFS	Egypt Financial Services Project
GOE	Government of Egypt
GSF	Guarantee and Subsidy Fund
IT	Information Technology
LLR	Loan Loss Reserve
LTV	Loan to Value Ratio
MFC	Mortgage Finance Companies
MIS	Management Information System
MFA	Mortgage Finance Authority
PP	Power Point
REO	Real Estate Owned
SBI	ShoreBank International Ltd
SOW	Scope of Work
USAID	United States Agency for International Development

## ***I. Executive Summary***

This report has been prepared in support of USAID's Egypt Financial Service Project Task 1: To establish the supporting framework for the mortgage finance industry. The Scope of Work is entitled: Mortgage Finance Training & Capacity Building. ShoreBank International (SBI) was contracted by Chemonics International to conduct this assignment during the time frame April 29 – May 19, 2006, with final deliverables due May 26, 2006.

Per requirements of the Scope of Work (SOW), SBI fielded a team to work closely with key stakeholders – EFS team, MFA, Egyptian banks and mortgage companies – to refine their needs for additional training and skills transfer and begin the process of localizing a four course training package. The SBI team arrived in country with an off-the-shelf training toolkit to be used as the foundation for the localization process. In addition to needs assessment, the team also focused on identifying enabling environment requirements that affect mortgage finance, such as lending terms and conditions, registration and foreclosure issues. In carrying out these tasks SBI interviewed EFS team members, MFA, and Egyptian bank and mortgage company staff in addition to reviewing numerous studies, reports and Egyptian laws (Annexes A and D). EFS also requested that SBI use the Egyptian Primary Mortgage Market Course (EPMMC) as a building block and framework for the four new courses.

On May 7, EFS and SBI convened a focus group of mortgage lender practitioners, MFA and EFS staff to review the preliminary course components and provide feedback to the course development team.

Using all of the information acquired, the team undertook localization of SBI's existing off-the-shelf training tools and materials; specifically, SBI developed course outlines and training materials (Annex C) for each of the four courses noted above.

In its evaluation of EMA's and EBI's capacity to serve as a platform for a localized training institute, SBI found that EMA does not currently have the infrastructure and staff capacity to both ensure quality of training and achieve cost efficiencies. EBI has an interest in mortgage training and a history of providing training and other services to its member banks. EBI is currently partnering with EFS/EMA in delivering the primary course. To achieve capacity, EMA has formed an education committee to work with EFS in the development and conduct of training programs. As a next step, SBI recommends that EMA develop a business plan to guide training program over the next three years. This report also sets forth several options for EMA to develop the needed infrastructure and staff capacity.

SBI has identified localization items for completion prior to delivery of the course, preliminarily scheduled for mid-June. These include:

- Gathering additional material from EFS to develop 4-6 fully localized group and individual exercises, including an appraisal evaluation exercise, a fraudulent appraisal identification exercise, a mock credit committee exercise (entails several "complete" Egyptian loan files), and others;
- Drafting of speaker notes to guide the presentations of expert Egyptian guest speakers on specific topics related to the evolving legal and regulatory framework for mortgage lending in Egypt.

Working with Amy Hagan, EFS's Training Manager, SBI also prepared revised Phase IV and V workplans as a basis for the next phase of the work. A description of the revisions is provided in the narrative in the next section.

## **II. INTRODUCTION**

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

- Conduct preliminary surveys which will provide necessary information to develop highly localized mortgage lending course materials'
- Hold an initial workshop with key stakeholders to identify needs and the local lending context;
- Conduct preliminary localization of ShoreBank's off-the-shelf course materials for four courses: 1) loan origination; 2) underwriting; 3) loan administration; 4) risk management, fraud detection and deterrence;
- Evaluation of the current level of Egyptian Mortgage Association (EMA) and Egyptian Banking Institute (EBI) capacity to serve as a platform for a localized training institute capacity and discussion of options for the "shape" of this capacity;
- Revise the training curriculum and Phase IV and V workplans, as needed.

Between April 29 – May 19, 2006, the following SBI team members worked closely with key EFS staff and Egyptian stakeholders in completing SOW activities:

- Jesse Fripp, Technical Coordinator
- Natalya Klimova, Lead Technical Specialist
- Jeanne Bufton, Senior Technical Specialist
- Jeanne Engel, Technical Specialist

This report describes the above activities in more detail and where appropriate, sets forth recommendations for next steps. We provide a list of persons/organizations interviewed and a list of documents reviewed in the appendices to this report (Annexes A and D). Regarding the specific deliverables for this SOW, SBI:

1. Provided to EFS an off-the-shelf Mortgage Finance Training Manual upon arrival in Egypt;
2. Prepared course outlines for the four mortgage courses (In text)
3. First-version localized course materials for all four courses (Course materials are found in Annex C);
4. Evaluated EMA and EBI training capacities (In text);
5. Identified localization action items (In text); and,
6. Revised proposed Phases IV and V workplan timeline (Annex E)

### **III. COURSE LOCALIZATION**

#### **A. INFORMATION GATHERING**

To gain a better understanding of the background of the current mortgage market and EFS activities to date, SBI prepared and submitted to EFS an extensive list of questions prior to arrival on site (Annex B). These questions were categorized in the following areas:

- Lending Institution/Process Issues
- Lender Trainee Issues
- Legal/Regulatory and Enabling Environment Issues
- Association Issues
- Other Issues

SBI was also fortunate to receive from EFS copies of studies, reports, policies, business plans, operations manuals and laws applicable to their up-coming work. (Annex D contains a list of all materials reviewed by SBI.) Throughout the scope of the assignment, SBI relied heavily on EFS to provide clarifications, explanations, information and logistical assistance as well as to identify those stakeholders with the appropriate expertise to assist when needed.

SBI extensively reviewed the EPMMC manual and spoke with course trainers to better understand the learning objectives and course content delivered in the primary/basic course. To date EFS has delivered this course four times. SBI's four courses are intended to build on the skills and learnings of the primary course. In fact, a prerequisite for participation in any of the four courses will be the successful completion of the primary course or a minimum of one year lending experience.

Workshop/Focus Group: On May 7, EFS and SBI convened a focus group of mortgage lender practitioners, MFA and EFS staff to review the preliminary course components and provide feedback to the course development team. Representatives from the following "external" organizations participated:

- The Egyptian Mortgage Finance Authority
- El Taamir Mortgage Finance Company
- Egyptian Housing Finance Company
- Arab Bank
- Arab African International Bank
- NSGB

Specifically, SBI wanted to identify course components and specific areas where participants required additional information or a deeper understanding. In some areas, SBI proposed for the group's consideration new tools or techniques and identified appropriate places in the course outlines for introduction of international best practices.

## **B. PRELIMINARY COURSE OUTLINES**

Per the term of the SOW, SBI developed four preliminary course outlines corresponding to the following areas:

- Loan Origination
- Loan Underwriting
- Loan Servicing
- Risk Management, Fraud Detection and Deterrence

Based on information gathered from interviews, discussions, document reviews and the workshop, SBI continually revised each of the four preliminary course outlines to reflect the input received. As noted in each of the four courses, SBI will incorporate IT/MIS and regulatory compliance where appropriate. While still preliminary, these course outlines have guided the development of the participant training manual; SBI will continue to update the course outlines to reflect experiences and knowledge gained from the first course deliveries.

## **C. PARTICIPANT TRAINING MANUAL**

The training or course manual is designed to serve as the theoretical backbone for each of the courses, as well as a useful in-course and post-course training guide and resource for participants. The manuals were designed specifically to respond to the expressed needs of practitioners in the emerging Egyptian mortgage finance market, and are intended to serve as “living documents,” which can be updated and revised on a periodic basis to reflect new developments in the Egyptian market and regulatory context. However, the manuals do reflect key international “best practices,” and provide examples and outline principles of products and approaches that may not be found in the Egyptian market currently, but will likely be in the not-too-distant future.

## **D. LOCALIZATION ACTION ITEMS**

Preliminary localization has been incorporated directly into the emphasis of the courses, the content of the participant training manuals, and several modified exercises. However, in preparation for first course delivery, additional localization will be required, particularly for planned exercises in appraisal review, fraud detection, and a full-scale “mock credit committee” exercise. All of these will require development of real-world training materials which will provide participants with a very practical opportunity to apply classroom skills to situations they will encounter in their day-to-day lending activity. Specifically, this entails building several complete “mock” credit files, with appraisals, income documents, application forms, and other elements which can be modified to build and test in “real-time” participants ability to conduct calculations, identify areas of potential fraud, determine good potential clients from those who might represent potential risks, etc. SBI will coordinate with EFS staff to ensure that these core training materials are prepared in advance of the pilot training delivery in Phase IV.



## **E. EVALUATION OF EMA AND EBI**

SBI's goal within the Phase III SOW was to assess the current capacity of both the Egyptian Mortgage Association (EMA) and the Egyptian Banking Institute (EBI) to serve as a platform for the trainings and set forth the options for undertaking the activities associated with training as an association product.

Background: EFS has had discussions with both the EMA and the EBI regarding their roles in providing training. EMA is a relatively new organization. EFS has provided an association development consultant to assist EMA in developing a strategic plan, a business plan checklist, an action plan and the budget. The conduct of training is an integral part of their strategic plan. Currently EMA does not have staff nor the infrastructure to serve as a training platform. However EFS is currently working with a board member to spearhead this initiative. EFS has advised EMA to form an education committee, which will work with EFS in development of localized materials and conduct of lending training programs. EFS has also provided step-by-step procedures as well as a budget for carrying out training activities.

The EBI is also interested in participating in the training initiative. This organization has a long-term history of providing training and other services to its member banks. Currently, EFS/EMA has an agreement with EBI to market the first lending course on Egyptian Primary Mortgage Market, supply training rooms, equipment and other administrative services associated in the delivery of this course at EBI premises. As part of a plan to further develop the training platform, EFS anticipates EMA will continue partnering with EBI for these services resulting in economies of scale and lower costs.

To date, EFS, in conjunction with EMA, has conducted the Primary Mortgage Market course three times and has proven that association can earn fee income from the trainings. EFS provided EMA the assessment and budgeting tools for each training programs so that EMA can manage these training programs. As a next step, EMA should develop a training business plan for the next three years that will allow EMA to identify the infrastructure and resources needed. At a minimum this business plan should set forth goals for the number and type of courses to be offered in the next three years and include the following:

1. Assessment of immediate and future training needs. Much of this information is already available from EFS and its training contractors but needs assessment should be an on-going activity.
2. Development of infrastructure requirements to facilitate the conduct of the training. The infrastructure needed includes the following:
  - Facilities: Training facilities must have the rooms (number and size) necessary to support the course requirements. For example, courses might require the use of break out rooms, space for breaks and refreshments and special lighting or additional rooms for storage of course materials or instructor preparation.
  - Equipment: The type of equipment needed will be dictated by each course presented and may differ from course to course. All equipment must be tested prior to the course to ensure that it is in working order. Course material production will also require equipment for copying and binding of materials as well as a means for transporting the materials to the training site.

- Information Technology: As the number and frequency of courses grow EMA will have to invest in infrastructure (software) to manage and track information related to course registration and attendance. EMA should also consider implementing an instructor data base.
  - Security: EMA will be responsible for ensuring that trainees and instructors are safe and secure during the training sessions.
3. Identification of staff skills required to carry out the plan. These may consist of the following:
- Event planning skills are needed to identify and contract for training facilities in advance of the training. Staff members are also responsible for ensuring that all facilities meet the requirements of the course and that any contracts for services are negotiated and fulfilled.
  - Registration and customer service skills: Staff will be required to field questions for information, determine if participants meet any course prerequisites, ensure that courses meet minimum and maximum levels of participation, and that participant withdrawals and waiting lists (if used) are managed.
  - Course development skills: Course development can occur in-house or by contract. Either way, staff members need to have sufficient knowledge of adult training techniques to prepare and/or evaluate new and updated courses.
  - Marketing skills: Marketing is important to advertise immediate and future courses in ways that attract participation and ensure registration goals are met. Marketing is also used to identify needs for additional or new courses.
  - Financial and accounting skills: EMA must be able to account for costs related to all aspects of the training platform and evaluate if the training achieves revenue goals and is operated within budget constraints.
4. Development of a budget to guide both development of the platform and on-going operation.

#### Options for “Shaping” the Capacity

As noted above, EMA will need to develop the infrastructure and staff capacity to achieve the training business plan goals, ensure quality of training, and achieve cost efficiencies. This can be accomplished in several ways:

1. EMA could decide to achieve capacity by bringing all infrastructure and staff skills in house. Such a decision would require a large up-front investment of money that might not be amortized for several years given the small number of trainings to be expected in the early years. Unless sufficient resources can be identified, we would not recommend this option at this time.
2. EMA might decide to partner with one or more organizations to perform the needed operations on a fee or revenue sharing basis. Activities that lend themselves to sharing include event planning and course development.
3. Alternatively, the EMA could identify a joint-sponsor partner of the training. The terms of the partnership would be dictated by the needs of each organization and what each brings to the partnership. Branding issues might

arise but could be overcome. Potential partners include the EBI, universities/education institutions, local training academies, real estate brokers and the lenders themselves.

4. Rather than bring specific skill levels on staff, EMA could enter into longer-term contracts for services for such things as advertising, material preparation, and course development. Such contracts would be on a fee basis with perhaps minimum usage requirements that can result in reduced costs.

## **F. REVISED PHASE IV AND V WORK PLANS**

### **i. Revised Phase IV Work Plan**

Based upon feedback from EFS and Egyptian stakeholders, SBI proposes delivery of the pilot courses in two back-to-back training sessions, beginning in mid-June, and running through mid-July. The sessions, during which Course I & II, then III & IV would see initial delivery to Egyptian participants, would be preceded by an intensive period of final materials updating, pre-testing of localized exercises, and briefing of Egyptian trainers identified by EFS to support pilot course delivery. Following each session, days will be allocated to incorporating feedback and lessons-learned fresh from the training room, into the course packages.

SBI will field its team of trainer-practitioners in mid-June to conduct delivery preparation, deliver pilot training, incorporate revisions, and incorporate secondary localization for Courses I-IV developed in first version during the previous SOW. SBI will deliver Egypt-specific mortgage finance practitioner training to anticipated classes of 20-25 professional lenders. The current SOW is designed to build from the prior deliverables outlined from Phase III above by providing an intensive focus on pilot course delivery, preceded by an emphasis on preparing for training delivery the basic course material, outlines, and localization (described in points 1-4 above) with complete PowerPoints, teachers notes, and first version students manuals. Pilot delivery will be led by a strong team of international experts to “headline” first delivery of the courses, bringing in participation from a broad array of Egyptian banks and mortgage companies, and providing a pool of strong Egyptian practitioner participants from which potential Training-of-Trainer (ToT) resources can be identified and cultivated during the course delivery.

Each Course would be preceded by intensive Course materials preparation and ToT preparation with EFS-identified Egyptian counterpart trainers, leading to pilot Course delivery, followed by materials revision and training feedback to produce refined training modules for each of the four Courses outlined below.

Building from the previous EFS training approaches, this phase will consist of Course offerings covering the following elements:

- a) Loan Origination – classroom overview with heavy emphasis on experiential learning and case study application, detailing the loan origination process, including marketing, developing product profiles for key markets and associated borrower profile<sup>1</sup>, understanding the application process (lender and consumer perspective), using ratio analysis and credit information for

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<sup>1</sup>Example: a) product profile – mortgage loan with a low down payment, long amortization period, and requires parental guarantee; b) borrower profile - newly married couple with steady income and parents willing to guarantee loan and meet other lender requirements.

- “pre-approval,” consumer counseling, IT applications, elements of policies and procedures development, and regulatory compliance;
- b) Loan Underwriting - classroom overview with heavy emphasis on experiential learning and case study application, detailing the purpose and roles of the underwriter, assessing the borrower’s ability to repay, verifying assets, liabilities, and net worth, assessing the borrower’s willingness to repay, collateral and assessment of property, the loan approval process, loan closing, and secondary marketing;
  - c) Loan Servicing and Administration – classroom overview with heavy emphasis on experiential learning and case study application, detailing the roles and processes of loan servicing, including payment notification, cross-selling other products, monitoring collections and escrow accounts, loan monitoring, problem loan workouts and collections, enforcement and foreclosure, IT/MIS issues, and record maintenance & custody;
  - d) Risk Management, Anti-Fraud Strategies - classroom overview with heavy emphasis on experiential learning and case study application, detailing definition of risk, types of risk, risk specific to mortgage lending, monitoring and managing risk, risk management tools, risk rating systems as a management tool, fraud, importance and methods of fraud detection, fraud reporting, fraud prosecution/loss recovery, fraud mitigation techniques, and audit processes;

The training modules outlined above will be delivered using adult learning principles and approaches to training, emphasizing participatory learning processes and hands-on experiential learning wherever possible. The courses will be organized in complementary fashion, within the following general delivery framework:

- Introductory and Skill-Building Workshops/Short Courses – with a length of 21 hours, these events will be organized by module and will utilize a combination of short lecture, group learning, case study, and role plays to deliver core technical competencies in the areas outlined above.

### **Objective of this Task**

- To prepare first version localized training materials prepared under Phase III for pilot training delivery;
- To conduct first pilot delivery of Course I: Loan Origination and Course II: Loan Underwriting, to 10-15 Egyptian loan officers and managers in late June;
- To incorporate feedback, lessons learned, and additional localization elements into both courses following training delivery;
- Incorporate subject matter specialist input into localized Course IV: Risk Management, Anti-Fraud Strategies, and prepare both Course III: Loan Servicing and Course IV for training delivery in early July; and
- Identify initial ToT candidates, and incorporate ToT approaches and team-teaching techniques into pilot delivery of Courses I-IV, and develop integrated strategy for development of ToT capacity to support course roll-out and sustainability.

## **Deliverables**

1. Field-tested and training ready versions of Courses I-IV;
2. Phase V ToT workplan;
3. Report on pilot training delivery, recommendations for roll-out, and secondary localization of Courses I-IV.

### **ii. Revised Phase V Workplan**

ShoreBank is proposing a more closely integrated follow-on training and TOT component in Phase V than originally anticipated – this is due primarily to a need to maintain greater continuity in the timing and delivery of the work, as well as maintaining momentum in terms of generating enthusiasm in the mortgage finance community of practitioners for the courses. To this end, SBI trainer-practitioners will work on multiple fronts in Phase V to achieve the desired final outcomes, as follows:

- ToT – an integrated approach to ToT development is proposed, combining focused workshop time on basic ToT approach and methodology with a “twinning” approach to ensuring Egyptian professionals are matched with SBI experts for all aspects of training delivery, design, and follow-up in Phase V. This will allow for transfer of both theoretical and practical underpinnings of a successful ToT profile, which is important to the long-term success of the EFS courses on the Egyptian market;
- Courses – deepen localization with input and lessons from Phase IV delivery, and conduct a second course delivery in Egypt. This second delivery should be primarily driven by Egyptian ToT individuals, with SBI experts playing a supporting and mentoring role for the training delivery;
- Seminars – coinciding with the second Course delivery, SBI experts will conduct follow-on seminars which will bring together participants from the Phase IV pilot Course delivery in a structured environment to review their practical experience in application of the skills and concepts delivered in the Courses. The seminars will also be structured to allow interested participants to access one-on-one time with SBI trainer-practitioners to review application of tools and techniques from the Courses. An important outcome from the seminars will be additional input into successful localization of Course materials and tools, incorporating the participants real-world experience to ensure that the learning is immediately applicable and highly practical to the needs and challenges of the emerging Egyptian mortgage market.

Finally, SBI will incorporate additional feedback and input from EFS, ToT candidates, and Course participants into a fully finalized Course Materials Package delivered on or before March, 2007. This package will be designed to incorporate regular annual or as-needed training updates, to reflect the evolving nature of the Egyptian mortgage finance market and the needs of the institutions and practitioners within this market. Ideally, the Course Materials Package, as well as management of the established Egyptian Training capabilities, will be housed in a viable local institutional partner for long-term sustainability.

At the conclusion of Phase V, ShoreBank and EFS will review follow-on requirements for mentoring and continued capacity-building requirements for the association-based

training institute, as well as mentoring and technical assistance requirements for mainstreaming classroom training into real portfolio growth and performance at the level of beneficiary financial institutions.

#### ***IV. List of ANNEXES***

ANNEX A	List of People and Organizations Interviewed
ANNEX B	List of Questions
ANNEX C	Draft Training Curriculum
ANNEX D	EFS Reports and Egyptian Enabling Environment/Legislation
ANNEX E	Revised Phase IV and Phase V Workplan Timelines