



Market PULSE

November 2005



Published by
Egypt
Financial
Services Project

Own Your Home

Our ultimate goal at MFA is helping consumers own their homes through a mortgage finance system that is efficient and well regulated. To achieve that goal, MFA plays two important roles: a regulator of the mortgage market to ensure industry-wide adoption of the real estate financing law, and a protector of consumer rights.

As mortgage market regulator, MFA collaborates with the key players in the mortgage market to create a cadre of professionals who are well educated, trained, and certified. Those professionals include bankers, appraisers, brokers, and legal agents, among others. As part of its capacity building efforts, MFA in coordination with the EFS project and the Egyptian Banking Institute will provide an MBA training program to banks and mortgage companies at the end of November.

In its second role, MFA protects consumer rights through legalizing and monitoring the mortgage market, ensuring that services offered are of a professional level,

and educating consumers about the mortgage system. In terms of educating consumers, MFA is currently developing a public awareness and communication strategy that aims to increase consumer awareness of the advantages of mortgage financing, the steps to follow in order to apply for and get a mortgage, and the key institutions involved in that process. MFA, in coordination with the Ministry of Investment, has also produced several publications aiming at introducing basic mortgage concepts and principles to the public.

We know that accomplishing our goal requires an efficient and effective organization. To that end, MFA is now building a foundation for future development by implementing a new organizational structure and developing its business plan. Under the new structure, we are adding more legal, economic, and financial resources like Mr. Ashraf El Kadi, a financial expert who is a new and valuable member of our team. We are also



Chairman Osama Saleh

ensuring that all our staff is properly trained to be able to perform their roles professionally and competently. In addition, we are establishing an IT infrastructure that will support the MFA in all its activities. Our upcoming web site will act as a dynamic educational tool to the public and will support market professionals in applying for licenses and certification online.

Our vision for the future focuses on creating a model Egyptian mortgage market that facilitates a boost in the real economy. Therefore I urge all industry stakeholders to realize the importance of their roles in developing this market and making it a better market for consumers.

Sincerely,
Osama Saleh
Mortgage Finance Authority
Chairman

TABLE OF CONTENTS

P1 Editorial

P2-3 EFS News

P4-5 EFS Events

- Real Estate Best Practices
- Land Registration in Jordan
- CMA Vision

P5-6 Mortgage & Finance

- Deputy Chairman of MFA
- Home Loans Boom
- Mortgage Finance at Euromoney

P6 Knowledge Edge

- Appraisal Approaches

During the last quarter, EFS has been working closely with the "new team" at the Mortgage Finance Authority (MFA) providing them with technical assistance and other resources. For example, EFS advisors designed MFA's general business plan for 2006 - 2008 with a special focus on critical components such as its mission, strategic goals, business objectives and organizational structure. Another example, EFS experts recently completed a study with recommendations to enhance the sustainability of the Guarantee Subsidy Fund (GSF). Though separate entities with different mandates, the MFA and GSF share

common legislative provisions and MFA's top managers are responsible for GSF activities. Thus the MFA and EFS are working together to strengthen GSF programs.

Since our last Newsletter, EFS contributions to other MFA initiatives include: standardized documentation for mortgage loans, introduction of a Regulatory Advisor, a comparative analysis of consumer protection regulations and developing models for providing liquidity to real estate lenders.

Though briefly summarized, all of these initiatives are very important:

- Without standard documentation and consumer protection,

primary mortgage lending becomes difficult to regulate, consumers become easily confused and investors in the secondary market are easily discouraged.

- The time was right to bring in an experienced Regulatory Advisor as the MFA team expands and embarks on a strategic plan for supervision and regulation of the market.
- Taking liquidity models from other markets and adapting them to Egypt's needs are high on the list of government priorities. EFS is fortunate to have a meaningful role in this exciting initiative. ■

Registration System for Urban Real Properties

EFS is pleased to announce that the Ministry of Justice/Real Estate Publicity Department (MOJ/REPD) has approved the floor plan design and related equipment procurement to establish a Training Development Laboratory (TDL). The TDL will be used to train assigned REPD staff and related project personnel from the private sector on the newly designed preparatory title registration system. Site renovation and installation of equipment is scheduled for end of January 2006. A minor upgrade of the Egyptian Survey Authority's (ESA) existing training center will be done in parallel. The EFS team is currently finalizing bid tender documents to make the TDL and ESA upgrade a reality.

EFS's Peter Bittner, Senior Vice President, Middle East, Chemonics International, and EFS Registration Team Leader R. Dougal Menelaws met with Counselors Farouk Awad and Mamdouh Ragheb on August 22nd to review project performance and operational budget requirements for the two preparatory title registry



Counselors Farouk Awad and Mamdouh Ragheb (MOJ), R. Dougal Menelaws (EFS) and Peter Bittner (Chemonics International)

offices (currently Nasr City and Maadi). A bilateral Memorandum of Understanding (MOU) between MOJ/REPD and EFS was signed on August 24, 2005. This MOU serves to further solidify our already strong working relationship and partnership. A similar review session was held on August 23rd with our other key partner – the Egyptian Survey Authority.

In addition, Menelaws met with the Ministry of Communications and Information Technology (MCIT) representatives Dr. Hoda Baraka and Dr. Hesham El Deeb to review the

Government program and progress in agricultural land title registration. Phase I of the program consists of developing an integrated database, Geographic Information System (GIS) and digital maps for agricultural areas in cooperation with ESA and REPD. Phase II involves reengineering and automating the title system business processes within REPD and ESA to improve and modernize the delivery of title registration services in agricultural areas. ■

Secured Lending and New Financial Instruments

The EFS Team is working with the CMA on facilitating the establishment of a securitization company while preserving the integrity of the portfolio of financial rights in its custody and control, for the benefit of investors, being the holders of asset-backed bonds. EFS proposed draft amendments to the Executive Regulations are currently under consideration. EFS proposed an article to the CMA chairman and deputy chairman stipulating the duties of the custodian acting on bondholders' behalf.

EFS also completed a report reviewing laws, court cases and doctrine relevant to the assignment of debt or financial rights, the pivotal contract underpinning securitization, which will help determine best legal practices for Egypt.



Dr. Hani Sarie El Din, CMA Chairman

Stock option plans for employees, directors, and officers (ESOPs) are among the new financial instruments

that can enhance employee performance and help attract and retain committed directors and officers. In cooperation with MOI Senior Advisor H.E. Abdel Hamid Ibrahim, EFS issued a comparative study of ESOPs and the detailed procedural rules required by the Executive Regulations, which were adopted immediately by the Minister of Investment Dr. Mohi El Din.

The EFS team also worked with CMA Chairman, Dr. Hani Sarie El Din, to implement the CMA restructuring plan, which includes a new organizational structure, procedures and documentation to enhance workflow, moving CMA offices to the Smart Village, and CMA staff training on existing procedures. ■

Broad-based Credit Information System

EFS is assisting the Central Bank of Egypt (CBE) and the newly established credit bureau, "ESTEALAM", in creating a broad-based credit information system that will provide credit information for lenders and borrowers to make better informed credit decisions and make credit more accessible. EFS worked with CBE to institute licensing requirements (posted at www.cbe.org.eg), and will be working shortly with "ESTEALAM", to develop an operating system based on best practices. EFS has jointly worked with the Central Bank of Egypt to prepare a draft on rules and regulations and continues to develop it further.



On August 22nd, EFS international Credit Bureau Advisor Miguel Llenas delivered a presentation on other countries experiences in credit bureaus and the situation in Egypt. For Egypt, he stressed the importance

of having an open credit bureau that collects from and serves the whole market. ■

EFS EVENTS

EFS Brings Best Practices to the Egyptian Real Estate Industry

Working with internationally-recognized real estate institutions and local real estate associations, EFS is bringing technical and knowledge resources to association members, mortgage finance companies and banks in Egypt.

The first in a series of training programs on the Egyptian primary mortgage market, "Introduction to the Real Estate Finance Industry", was conducted in September by CampusMBA, the award-winning education arm of the US Mortgage Bankers Association. The first round was a "Training of Trainers" (TOT) for Mortgage Association members and lenders who will become the potential future trainers of this course in Egypt. Following this TOT program, the future Egyptian trainers and the US MBA trainers conducted the second round of this training program for a broader audience from banks and mortgage finance companies. EFS wishes to express its deepest gratitude to the Egyptian Housing Finance Company (EHFC) and Taamir Mortgage Co. (Taamir) for their contribution to the



Maha Abdel Razek (AAIB) receiving the MBA TOT training certificate from Bob Anderman (MBA-USA)

development of the MBA training program.

Appraisal training materials for five courses are being developed with the Appraisal Institute of USA, a leader in international real estate appraisal education. Additionally, EFS held a workshop in September to bring together the Egyptian Appraisers Association leaders, course developers, and the Appraisal Institute of USA to discuss International Valuation Standards (IVS) and the supplemental materials for Egyptian Valuation Standards. The discussions emphasized the importance of public trust and examined the code of professional ethics, association structure and certification standards. ■

Jordan Speaks about Land Registration

EFS sponsored a nine-member delegation to represent Egypt in a regional symposium on "Land Registration in the Arab World: Challenges and Ambitions" from 1st - 3rd of September in Jordan. The event was attended by 130 representatives from 19 Arab countries and experts from Germany, Netherlands, Greece, Hungary, Spain, China and the United Kingdom.

The Egyptian delegation of key executives and senior management from government agencies involved in property registration, presented papers on land registration in Egypt, property rights under Egyptian law, developing an automated cadastral information system in Egypt and the role and vision of the Ministry of Communication and Information Technology in the establishment of a Land Information System in Egypt.



From right to left: Counselors Farouk Awad and Mamdouh Ragheb (MOJ), Samer Lotfy, Hassem Hemeda, R. Dougal Menelaws (EFS)

The symposium served as a valuable platform to introduce best practices, institutional models, confirm the international trend toward title registration and the importance of the cadastre within title registration.

EFS-organized informal discussion sessions allowed the group to share ideas and review how best to integrate workflows, exchange data, and improve customer service. ■

New CMA Chairman Speaks to Industry Players

CMA Chairman Dr. Hani Sarie El Din presented the CMA's 2005-2006 strategy on September 19th at a Capital Market Forum. 150 participants from the Mortgage Finance Authority, Central Bank of Egypt, Egyptian Capital Market Association, Egyptian Investment Management Association, Misr for Clearing, Depository and Registry in addition to issuers, legal firms, accounting firms, economic professors and the media, attended the event.

In addition to laying out the CMA's



vision, mission and values, Dr. Sarie El Din set the following CMA strategic objectives for the coming year:

- Enforcing compliance with capital market legislation,
- Developing the regulatory framework,
- Developing the medium and long term financing market,
- Raising investment-oriented public awareness, and,
- CMA restructuring and capacity building. ■

Mortgage Industry Worldwide

EFSA organized a media outreach event titled, "Understanding the US Mortgage Industry", which was held on August 22nd, as part of its public awareness efforts, for reporters specialized in real estate, business and economics. Our purpose was to increase awareness and knowledge about issues related to real estate financing by demonstrating best practices from developed markets.

The event featured a presentation by Ms. Angela Atherton, Financial Advisory Services Executive, and it



focused on four aspects: the Primary Mortgage Process, the Secondary Mortgage Market, the

US Market vs. the UK Market and Benefits of Developed Mortgage Markets. ■

MORTGAGE & FINANCE IN EGYPT

Mr. El Kadi Appointed Deputy Chairman of MFA

Minister Mahmoud Mohi El Din has appointed Mr. Ashraf El Kadi as Deputy Chairman of the Mortgage Finance Authority (MFA). Mr. El Kadi is an accountant who has held executive posts at banks including American Express and Bank of America. He

is experienced in financial regulations, transparency, budgeting, performance expectations and credit risk management. Mr. El Kadi's appointment is in line with the government's commitment to strengthen mortgage finance in Egypt by adding financial, accountancy and

legal experts to the highest executive level at the MFA. ■



Mr. Ashraf El Kadi, MFA Deputy Chairman

Minister of Investment Promises a Home Loans Boom

The Minister of Investment has mentioned recently that Egypt is expecting a big increase in demand for home loans as a result of a new program to build half a million new homes for low-income families over the next six years. The initiative was announced by President Mubarak and is led by the Ministry of Investment, the Mortgage Finance Authority (MFA) and the Guarantee and Subsidy Fund (GSF) and will progress at a

rate of 85,000 units per year. Each unit will occupy a 70 m² plot of land and be sold at LE 50,000. The government will provide a subsidy of LE 15,000 per unit, with a down payment from the purchaser of LE 5,000, leaving LE 30,000 to be repaid over 20 to 30 years through a mortgage.

Contributing factors to the increased demand for mortgages are falling interest rates, the government

subsidy on each new home, real estate registration and lower finance costs. In order to satisfy this demand, the number of financial institutions providing mortgages expanded to include Misr Bank, Commercial International Bank, National Societe Generale Bank, Housing and Urbanization Bank, Egyptian Arab Real Estate Bank, Arab African International Bank and Egyptian American Bank, in addition to others. ■

Mortgage Finance Discussed during Euromoney

During September 14th and 15th, the Semiramis Intercontinental Cairo hosted the 10th Euromoney Cairo Conference titled "2015: Shaping Egypt's Strategy". One of the panel events focused on "Mortgage Finance" and the panel

experts included Mr. Osama Saleh, MFA Chairman, and Mrs. Hala Bassiouni, CEO of Egyptian Housing Finance Company (EHFC). The event was attended by potential investors and industry leaders including developers, brokers,

lenders and other professionals. The panel experts led discussions and answered questions involving challenges and accomplishments of the Egyptian market. ■

Knowledge Edge

Appraisal Approaches

Real estate appraisal seeks to answer two questions: **value** (what is my property worth?) and **highest and best use** (what should it be used for?).

Three approaches to value are used: Cost, Direct Sales, and Income. The Cost Approach is based on the principle of contribution or what it would cost to replicate the subject property's land, building, site improvement costs, including entitlements, less physical, functional, and economic depreciation. The Direct Sales Comparison approach looks at the price of similar properties being sold in the marketplace while the Income Approach capitalizes an income stream into a present value using revenue multipliers or single-year capitalization rates of the net operating income.

The three approaches are evaluated to derive an opinion of value. In theory, the three approaches should equal one another. If the spread is greater than 10% to 15%, then the appraiser has likely mis-valued or mis-accounted for an economic variable.

Automated Valuation Models (AVMs) that rely on statistical models like multiple regression analysis and geographic information systems (GIS) are growing in acceptance. ■

Useful Links

- www.econ.worldbank.org/programs
- www.ftc.gov/credit
- www.equifax.com
- www.experian.com
- www.transunion.com
- www.investment.gov.eg/MOI_Portal/NBFS/Mortgage_Finance