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Tuesday, 15 June 2010

## Session 1 - Financing Egypt's Housing Needs

The panel was moderated by **Samy Abdel Aziz** (SA), Chairman, TBWA Egypt, with panelists: **Basel El Hini** (BH), Managing Director, Banque Du Caire; **Hala Bassiouni** (HB), Managing Director, Egyptian Housing Finance Company; **Iman Ismail** (II), Managing Director, Egyptian Mortgage Refinance Company; **Omar El Hitamy** (OH), Managing Director, Orascom Housing Communities; **Sherif Oteifa** (SO), Adviser to the Minister, Ministry of Investment; **Mohamed El Toukhy** (MT), CEO Consumer Banking, Commercial International Bank; and **Mohamed Bassiouny** (MB), Chairman & CEO, Misr Real Estate Asset Company. Below are excerpts from the session.

BH: When we look at the market, it is not only regulating the marketing, but also about allowing us to learn from what this regulation teaches us. Instead of blaming each other why not take these opportunities to learn. Of course a lot of people have qualifications but a lot of people still need training. Lots of the multinational banks have credit courses that help them to be responsible in the future. We don't have that and we need that to provide for the generation to come. There are positive impacts from the crisis which have made people look at the lower income sectors and the middle income sectors because the profit margins are positive. The focus encourages us to say that we have to start credit finance within the bank and then look to other companies.

SA: There should be some type of marketing vision to tackle this issue, particularly amongst those in the private sector that are targeting low income or blocked income individuals and now Mr. Omar Hitamy, from the Orascom Housing Communities who I think are the first low income housing developer in Egypt.

OH: We are amongst the first companies and the largest low income housing developers in Egypt, developing approximately 2,000 acres of land. For me to work with low income individuals the unit has to be affordable to them, so I must create a margin of profit that allows me to maintain low prices, which means selling a large number of units. The project has to be similar to an industrial project, which is based on manufacturing and selling in huge quantities, our business is a lot like that. We need a large customer base and the mortgage finance sector blocks access to a large number of customers, with a lot of people not able to purchase units, even at our prices. I depend on the marketing of these units through banks and other institutes. Financing is limited and the ability of banks to provide these services is limited, so companies need to have a better system. Haram City has sold 10,500 in 2 years, so the banks have to provide more access. There are many difficulties that our customers face in accessing mortgages, they don't have a bank account, or paper work or proof of income and of course there are problems with how this sector of society is defined by law. According to law those entitled to low income housing should have a maximum monthly salary of EGP 1,750, for an individual, or EGP 2,500 for a married couple, this is in addition to the fact the loan should not be more than 25% of the overall unit, as well as all of this these individuals are still subjected to long process needed to confirm their credit rating. This is not to blame banks but to say we need to work harder. To me addressing the needs of this sector of society is an issue of national security.

SA: Is it a necessity that mortgage finance is related to limited finance or blocked income individuals? Banks, for example CIB, are not going to be thinking we don't want to enter the b- or c- sector. Is this not an added value that banks are willing to enter these sectors?

MT: A billion EGP is a huge portfolio but against the GDP it represents approx 0.5%. A lot of countries similar to Egypt have portfolios that represent 50% of their GDP, like Cyprus. The conclusion is we have a long way to go, whether we are talking about companies or banks. We have to classify the roles to be played in raising awareness. We are still only starting to raise awareness about financing. We have a role to play in raising awareness amongst individuals. We have to raise this awareness online, through our call centers and at our branches, so that when someone comes to the bank to ask about a mortgage they understand. Transparency is also of huge importance, we should be specific about terms and conditions. We, as banks have to be ready, internally, with clear policies and procedures, so that when applications are started, that from the time of the assessment right up until the collection phase the process can be monitored at the highest levels. The other area I would like to highlight is we have to have institution relations with others in the financing field, in intermediary areas and in collaboration with developers, so that all those involved benefit and the loan benefits the recipient. Lastly we have to communicate with the supervisory authorities so that we can give our feedback and help in developing legislation.

SA: 0.5% I am surprised it has taken 5 years to get there, when there have been special companies who were able to receive a lot of money or EFSA or its umbrella to protect them. We need to revisit what is going on. Six years is a long time and I suspect that those taking out loans they are still selling their souls to get these loans. Let's talk about the public what does your company mean and has refinancing made a difference?

II: There are at least 12 other companies in this field but the ratio of the GDP is low compared to Jordan where it's about 80%. But we have one objective to refinance our investors to cover one risk, their liquidity. We are quite successful at this if you look at mortgage financing over the past years we have not exceeding 3%. The crisis has impacted our sector and it has highlighted that liquidity has always been a problem. The problems of liquidity are even bigger now than in the 1980s when a lot of banks in the US had borrowed money and couldn't cover them. Our budget is EGP 250 million which is not big, but those dealing with us know that they have liquidity through us and know our terms. Our transparency is building confidence we have clearly

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removed doubts from our customers minds. We are involved in the field of core deposits in the order of 5-10%. Capital markets are risky these days so really I don't see that relying on deposits or capital markets is enough. What we are doing is helping people that come to us. This market will grow.

SA: I believe we really need someone as strong as you in the market. If there is a collapse and if there is not a collapse it's also the governments fault. What is the ministry planning next year to increase this number?

SO: We have 4 plans. Related to subsidies, we have the subsidy guarantee fund. Secondly, the loan from the World Bank which will secure us 65,000 housing units. The EGP 4.4 billion will reach 9 billion by 2013 at least through subsidies. Going back to what Mr. Hitamy said, we want to change the legislation to address affordability. We need to increase market efficiency, expand the number of governorates included, and expand the insurance industry to have more companies covering more areas with more services. Lastly, financial culture and awareness is important because this needs to be done with the media so that we can brainstorm. I am confident we'll reach 9-10 billion in 3 yrs.

MB: To put you in the picture you need to know about the assets we manage. We were established 3 yrs ago and the insurance activities were planned to be developed and there was only insurance and there was a consortium for asset management for EGP 1 billion and 22 projects dealing with capital beyond EGP 1.2 billion. We are a public company working with all governorates. Our experience with mortgage financing has followed a government trend to finance the poor and is now expanding to include mid- and- high income sectors. Given the good sales figures we have per annum, we started looking at mortgage financing companies and created protocols with banks and then had products to sell to the real estate and we tried to cover diverse sectors of society. We had auctions in Kafr Sheikh, Dakhlaya and Minya. If you look at the 3 yrs we have sales exceeding EGP 500m. We did face considerable difficulties giving us an edge over other companies as we have been able to provide fully licensed land and we are working with holding companies and national financing companies to satisfy our customers. There are still problems and there is a lack of awareness. We might have salaries of EGP 5,000 and can't afford a flat for EGP 250,000. If we look into the documentation needed to access financing and focus on this, we can expand and gain more land in the real estate sector.

#### **Q&A**

1) What are the resources of your company?

II: We have 29 stakeholders and EGP 29 million we have plans to issue medium range bonds; we have resources of EGP 500 million not all been used.

2) Everything we are talking about is related to mortgage financing and we have only focused on housing but what other buildings can you finance i.e., hospitals, retail, offices.

HB: The law of real estate allows for real estate and housing units and I can finance all of these. The difference is mortgage finance is not under the name of the client it is under your name and the value is received by you directly. Consumer financing is different as the property is not in your name until you finish payments

3) What is the effect of reinsurance on the person who receives the loan?

II: We provide rates at 10% and the client doesn't feel anything unless the bank provides less than 10% and I don't think anyone does and the 5[%] we benefit from is the fixed interest rate.

4) There is an agreement that the mort fin has not played the role it should have played. What do you see as being the burdens facing the companies and banks from moving forward?

HB: I always say that developers are the main competitor to financiers because they sell off plan payments. They require a down payment and payments over 5-10 yrs allowing ownership. This client needs to provide me with income proof and after 7 years we have become more flexible and then I have to score his credibility and then I have to assess the house whether it is ready or not. The problem is our clients compare us to developers. I have to ensure that the loan will be below 40% as by law

BH: I think this is to the benefit of the consumer this is not a drawback.

HB: At the end of the day they are not experts and at the end of the day we are blamed for not financing

II: With all due respect in 1997 and 1998 there were consumer protection issues that were major. There is a risk that the consumer might not know.

SA: Dr Adel I think you need to organize a meeting with developers, banks and mortgage financiers to ensure that consumers are protected. I don't believe we should look at real estate finance as an objective but as a tool to develop the country. The bank is not doing us a favor, they are gaining profit.