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Tuesday, 15 June 2010

Session 4 -Meeting International Best Practices through Education and Cooperation

The panel was moderated by **Ghada Howaidy** (GH), Director, International Executive Education Institute, The American University in Cairo; with panelists; **Ayman Ismail** (AI), Chairman & CEO, Dar al Mimar Group; **Hala Bassiouni** (HB), Managing Director, Egyptian Housing Finance Company; **SuSheila Dhillon** (SD), CMB, Emerging Markets Group; **Brian Handal** (BH), CMB, Emerging Markets Group; **Alan Fowler** (AF), CMB, Emerging Markets Group.

Below are excerpts from the session.

GH: What is the current state of education in the real estate and mortgage industry? What are the benefits of the sharing of information among industry participants? Cooperation among industry participants can lead to a level of standardization that will make Egyptian mortgage products more attractive to investors.

GH: What does the customer want from the developers' side and the mortgage financing sector? How can industry players satisfy customers' needs to create healthy market?

AI: Who is the customer? The customer, as in the end user, it's obvious he wants his home as large as possible, a pool, and all for free. Seriously, the end user wants their housing needs met and the research earlier would indicate demand and size, whether the quality compares to other nations' standards is similar and the income ratio to cost. Egyptian consumers' wish list is far bigger than their annual income can afford. Things are changing though some of the latest developments that are happening in the low income sector. They are choosing smaller sizes suitable for their budget, so there is adjustment happening to this trend. There are more options for buying and mortgage might not be the best option. Right now, the only option is to use one's own funds to buy. I believe education is one of the key areas for developing the mortgage market. Financial education as a whole is necessary to teach customers how to manage their money. Need for innovative mortgage solutions that address the needs of the Egyptian market. Also education for bankers, developers, and insurance companies is important.

GH: Hala, from the perspective of the financing sector, what do customers want?

HB: We are a culture of long term and mortgage doesn't cater to this in Egypt because the customer wants a house that will be long term. We need to stick to our real needs and means. We need to analyze why we aren't addressing the needs of the people through mortgages. Affordability is the bottom line. Low interest rates should stay the same, if not decrease. We are still in the learning process and adjusting to the needs of the client. Now we have different payment schemes; low installments and higher down payments and vice versa. Payment schemes exist in the market now, but to solve it completely will take longer. The society needs to change.

HB: Greater issue is source of payment and collateral. I need to differentiate the source of payment and collateral.

GH: According to structure issues, where do you see a need for training and education and awareness? What structural issues need to be addressed?

HB: Mortgage is not a magic wand. This product needs to satisfy certain conditions. The majority of Egyptians are ignorant about legal issues and ownership issues. Some terminology needs to be understood to common people.

AI: Building on that, education is about asking questions. There needs to be basic understanding about analyzing data that is out there and use it in a structural way. This would be an achievement. I really believe that the mortgage sector has potential. If we follow the strategy, we can get there.

GH: The Real Estate Academy, from the AUC is embarking on training for stakeholders in the industry so that the whole market is moving forward together towards international standards.

GH: What lessons could Egypt learn from international best practices?

AF: Mortgages have a language of their own. From company to company even. There needs to be a standard language and practices. We should work together but also compete for business. Egypt has weathered storm of financial crisis very well. Also with mortgage market, you've reached 2%, still have 98% left to learn about it. We want to make it unique to Egypt. Having a group of educated and passionate people in the industry will make that happen. Investing in partnerships, World Bank, int'l institutions will also help develop the mortgage sector.

SD: [As outlined in the presentation]

Egypt is in the top 1% of growing nations

- Standardization Goals:
- Standardization Deviation: Relaxation of Standards
- Ease of entry for new players,
- Underwrite standards
- Pool characteristics

Standardization Best Practices:

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- property registration,
- participation of all credit vendors,
- documentation standardization,
- tenor,

Industry Best Practices: MBA, BBA

BH: Cooperative + Competition = Co-opetition

- Companies working together to build infrastructure while sharing common costs.
- Increased professionalism,
- Through information sharing info while competing

Cooperate:

- training and education
- certifications,
- loan documentation,
- property registration,
- borrower disclosure,
- credit reporting

Compete:

- products,
- pricing,
- people/culture,
- production process

AF: Securitizations

EMRC- building database with loans purchased for the future securitization:

Redwood Trust Private Label Securitization Case Study:

Investors need to know they're backed before they front the loans. Real estate crisis-froze credit markets, couldn't trust mortgages. The mortgages got away from standards. The only ones now sold are the ones that are backed by the government (Freddie Mac).

BH: What does an investor want?

Standardized loan products, strong borrowers with significant investment, responsible consistent underwriting, and predictable risk.

SD: What has changed?

New market, requires higher standards and demands greater transparency

We need to see more credit scores and more for down payments.

AF: Used the example of US's recovering of the market as educational tool to inform and train new practices and standards. This can help the Egyptian example for educating and tailoring the mortgage industry to Egypt.

BH: In conclusion,

- Invest in education. AUC is a recognized leader.
- Co-opetition is good for the industry.
- Standardization is necessary for transparency to attract the investors.
- All this creates a healthy mortgage market.

GH: How can we (Egypt) get there? How we can move forward with education, co-opetition and standardization?

HB: As for education, we are on our way. It's not enough to just have a few people to attend the training; banks, developers, and all members of stakeholders must also be a part of this.

As for Co-opetition, we still lack this. Everyone has to work together, developers and finance institutions. This is vital to ensure the clients' credit, and ability to pay back the loan.

Standardization is a problem with the real estate market in Egypt. There is a start, we've started and it needs cooperation with all stakeholders, not just mortgage providers.

AI: Co-opetition is a neat concept and addresses many issues we are dealing with. Competition is the driver of innovation and sustainability and we need to maintain it. As much as we share data, we need competition to continue, we need to read the market. The customer wants a villa at the price of an apartment... we tried to solve that equation.

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Q & A:

Q: Is it fair enough to compare between the US and Egypt for securitization and mortgage finance? Co-opetition deals with banks to finance mortgage companies?

HB: Not fair to compare as they are very diversified and have a totally different nature. The volume of demand in the US is huge compared to the Egyptian market and take into consideration that both are working separately.

Q: Why don't banks use liquidity in mortgages?

HB: Regulations and policies set by the CBE interfere with this. They cannot grant mortgage finance for unlimited sums of money and the banks can't give loans that exceed a certain amount of money. Banks don't have enough experience and tools to deal with mortgages and that's why the finance companies are better options in Egypt.