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The American University in Cairo
School of Global Affairs and Public Policy

The Mortgage Market in Egypt: Barriers and Recommendations to Availability of Housing Finance

A Thesis Submitted to

The Public Policy and Administration Department

In partial fulfillment of the requirements of the degree of Master of

Public Policy and Administration

By

Mona Mostafa

Supervised by

Dr. Jennifer Bremer

May 2012

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For my family, because everything is in some way a group effort.

The American University in Cairo
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Abstract

The Egyptian housing sector suffers from a number of deficiencies. Among these is the lack of an efficient housing finance mechanism. The mortgage market, formally developed in 2001, is still at nascent stages and is unable to provide such a mechanism for a large majority of would-be or actual buyers. This study examines the reasons behind the failure of the mortgage market to grow and thrive. It presents a qualitative analysis based on extensive interviews with the players in the mortgage market, including regulators, lenders and real-estate developers. It assesses the current market standing and identifies the barriers to the mortgage market and recommendations to overcome those barriers. Institutional immaturity and security measures are addressed at the core of problem as possible hypotheses to answer why mortgages are not more widespread. Through the intensive interviews, it is learned that there are specific barriers to mortgages as a housing finance mechanism. These barriers include, but are not limited to, the infrastructure associated with legal documentation and property registration; minimal mortgage education; hindrance in foreclosure policy and procedure; lack of an institutional leader; a limited secondary market; and an overall underexposure of Egyptian culture to mortgages. Market players participating in research offer recommendations that would improve the state of the mortgage market and overcome some of the barriers. Recommendations include nationwide awareness efforts, possibly starting with basic financial education at the school level; more promotion by regulators of the mortgage market; creation of mortgage-specific notaries; standardization of mortgage documents; and market synchronization through the establishment of a single national mortgage agency. This research demonstrates the importance of policy that is harmonious with existing supply of a commodity, in this case, housing, and the associated infrastructure.

Table of Contents

I. Introduction

Policy study becomes important in several scenarios: when it can solve a problem, when it can create a problem, or when it hinders the solution to a problem. In this research, the third scenario is applicable. If we were to look at housing finance mechanisms to address housing shortages in Egypt, we would find that current mortgage policy is hindering that process. This research addresses how current policy is hindering the mortgage market and what can be done, or recommendations.

The mortgage market in Egypt is relatively new, formally active only since 2004. While other forms of housing finance have been practiced before the emergence of a mortgage market, this specific mechanism was chosen as it is the most common form of housing finance worldwide, and one that has not yet taken full and final shape in Egypt. According to research, only about a third of demand for housing is annually being met in Egypt. Mortgages may not be the ultimate solution to the housing problem but the mechanism has proven an efficient method of allowing at least those who should be able to own homes to do so. An efficient mortgage market does not only positively reflect on housing affordability and thus availability, it also has a positive impact on the financial market, especially through the creation of a secondary market. Furthermore, availability of housing finance may decrease the resort to informal housing in the long run, which implies a social and urban development benefit. Benefits of an efficient mortgage market are to be discussed in later sections, but it is important to mention a few to better explain the purpose of this research.

While literature on the mortgage market in Egypt was found to be very limited, it provided vital insights and greatly guided the primary part of research. Primary research depended on the market players and pioneers of the mortgage market, who provided insight on the tangible problems and barriers to the mortgage market as well as realistic recommendations. This research was conducted with the aim and the hope that policy research can be used to solve modern-day problems that come with overpopulation, bureaucracy, and the many aspects of inefficient markets.

II. Statement of the Problem

The housing shortage in Egypt is not only evident in the lack of required units to house population, but also in the lack of *affordability* of units. For the employed Egyptian earning a moderate to minimum amount each month, buying a finished unit is almost always out of the question. This is due to the lack of an efficient home financing mechanism. Internationally, the most popular form of home financing is mortgages. Without mortgages, lower and middle-income groups in Egypt cannot buy homes (Carleton, P. Everhart, S. & Heybey, B. 2006). While some developers offer installment payment plans, it is not enough. Most private developers were attracted to the upscale real estate boom of the 1980s (Loza 2004) creating an undersupply of affordable housing as well as a mismatch of supply and demand. This mismatch takes the form of unoccupied upper scale units and housing shortage in lower-scale units. Compared to other North Africa countries, Egypt has the lowest rate of owner-occupied property and the highest ratio of civilians in the informal housing sector (Carleton, P., Everhart, S., & Heybey, B. 2006). The problem is serious when officials at the Cairo Governorate have been cited to claim that one-fifth of Cairo's residents live in informal areas at the edges of the city (McKee 1999).

Since the adoption of the Mortgage Law in 2001, the housing sector has been open to mortgage finance. However, mortgages are not yet widespread in Egypt, despite the dire need of the housing sector for a financing mechanism. The Central Bank of Egypt (CBE) strictly regulates banks, which are the primary lenders. Most of real estate lending goes to developers, which are at the supply end, rather than to purchasers, at the demand end (Regulatory agency officer. Personal Communication, 2012[1]).

Although many researchers have addressed both housing and mortgages in Egypt, one question, with several parts to it, remains unanswered: *why is mortgage finance not more widespread in Egypt, even though the housing sector is in dire need of an efficient financing mechanism on the demand side, and what can be done, and by whom, to make mortgages more widespread among the segment of population that need it most?*

There are indications in literature as to what the problems with mortgages are, but there is an absence of a definitive reasons, or set of reasons. *A possible answer (or hypothesis) could be that there is a lack of security on all sides involved that results in a trend away from mortgages*. 'All sides' refers to clients that are unexposed to banks and financing as well as inexperienced lenders. Lenders refuse to take on borrowers with low or no credit rating, and as long as clients do not deal with banks and borrowing, they will never have a decent credit rating, and thus the cycle begins. Also contributing to this cycle is the lack of security and confidence in a population accustomed to haphazard changes and amendments to laws and policies. The pervasive possibility of regulatory changes discourages investments made over long periods such as mortgages. Although more specific reasons for mortgages not being more widespread many of which will be tackled in this research, the lack of some form of security will come up as one of the main drivers behind many of these reasons. *Another possible hypothesis lies in the level of development of the mortgage market.* As an institution, mortgages are relatively new, with the law implemented

[1] All regulatory agency officer, bank officer, mortgage company officer citations are personal communications completed in 2012 This information will therefore not be repeated in subsequent references to material gathered in interviews.

only in 2004. The mortgage product is still at a nascent stage and is not yet mature enough to be a leading source of housing finance. Experts have repeatedly argued that it is this immaturity of the Egyptian mortgage market that saved it from being shocked as hard by the global financial crisis of 2009 as more developed markets (Bank offier). The crisis shocked markets that had been active for decades, while the Egyptian market was still only in its fifth year of operation. This is not only true for the mortgage market, but also for the financial market as a whole, which is still at a rudimentary stage as demonstrated by following research.

It can also be argued that the lack of mortgage finance is due to a *combination of security concerns and institutional immaturity*. More specifically, security issues for lenders and borrowers are most likely due to institutional immaturity. There is the possibility of a vicious cycle being created between the two factors: the mortgage institution is not developed enough for solid security guarantees and it will never reach a more developed stage without stronger security guarantees. A more definitive view on security and institutional immaturity will be determined through research, but it is likely that the answer to why mortgage finance is not more widespread in Egypt is one of or a combination of the two.

III. Literature Review

A. Housing and mortgage status

1. Housing and link to development

Empirical studies have shown that there is a relationship among land distribution, poverty and economic growth (Carleton, P. Everhart, S. & Heybey, B. 2006). Former Egyptian Minister of Investment Mahmoud Mohieldin, Chairman of General Authority for Investment, Ziad Bahaa Eldin and Sahar Nasr, from The World Bank, conducted a study for the Economic Research Forum of the Arab Countries, Iran and Turkey. Their research cites similar findings. The authors note that real estate and its finance are essential elements of economic development. Also, urbanization, economic growth and capital formation are entwined processes (Bahaa Eldin, Mohieldin, Nasr 2004). The Investment Authority, the official body in charge of licensing new companies, states that real estate is the third largest sector in Egypt, after manufacturing and tourism (E.S. McKee 1999).

With the establishment of the importance of land and real estate and their impact on development, it is important to recognize what impact of the improvement of housing finance would have on economic development. Improved housing finance would support economic development through several channels. It would increase savings, investment and employment. It would also work to strengthen and deepen the financial sector and work to reduce poverty. With all the channels in mind, the development of the housing market cannot reach its fullest potential without a fully functioning mortgage market. This has been proven though international experiences, which show that living standards increase when there is widespread availability of mortgages, because of the positive impacts mortgages have on housing quality, infrastructure and urbanization (Carleton, P. Everhart, S. & Heybey, B. 2006). Other researchers present work with similar findings.

S. Nuri Erbas and Frank E. Nothaft's study of on Middle East mortgage markets cites two reasons in support of the impact of widespread mortgage availability on achievement of redistributive and growth-enhancing policy objectives. First, there is an important subsidy element- in the form of preferential interest rates and tax treatment in many mortgage markets- in programs to extend home mortgage lending to groups that cannot otherwise afford mortgages. Second, that widespread availability of mortgages may enhance savings, promote financial market development and stimulate investment in the housing sector (Erbas and Nothaft, September 2005). Their research also presents evidence from developed countries showing that increased access to affordable mortgages produces positive externalities for low and middle income groups who already own property by upgrading their property and allowing investment into other ventures, such as shops (Erbas and Nothaft, September 2005). Further discussion of positive externalities, in the two studies above suggests that housing finance makes room for new housing construction, more jobs are created for low and middle income workers in this labor-intensive field both in the actual construction and in related service sectors (Erbas and Nothaft, September 2005 and Carleton, P. Everhart, S. & Heybey, B. 2006). Before positive externalities can be realized, details to consider include mass urban property registration and the use of mortgages for home purchases are both still at early stages in Egypt and the first step is for the Egyptian consumer to understand these instruments (Struyk, December 2007).

2. Comparisons

Several researchers have compared the standing of Egypt's mortgage markets to similar markets. For example, research by Stephen Butler (University of Chicago), Mariya Kravkova (International Finance Corporation) and Mehnaz Safavian (The World Bank) has indicated that mortgage financing amounts to less than 1% of GDP in Egypt while it stands at 10% of GDP in Mexico, 39% of GDP in South Africa and more than 85% of GDP in New Zealand. The differences in percentages come from the difficulties buyers face in registering a mortgage and transferring titles. Creditors also face more difficulties when buyers default on payments (Butler, Kravkova and Safavian, 2009). When compared to some MENA countries, specifically Tunisia, Algeria, Jordan, and Morocco, Egypt has the lowest rate of owner-occupied property and highest ratio of civilians in both public and informal housing. Also, the public sector owns 29% of all housing in urban areas, compared to 25% in Algeria and only 8% in Tunisia (Carleton, P. Everhart, S. & Heybey, B. 2006). Comparisons to the MENA region are important due to influence of the Shariah Law on the region, which forbids the giving and receiving of interest and thus set back the widespread use of mortgage finance instruments. Islamic banking offers a form of Islamic mortgages where a bank buys the property then leases it to the buyer with part of the payment going towards the purchase (Bergsman 2006). However, the recent experience with housing bubbles, exemplified in the US mortgage market collapse, emphasizes the need to design the mortgage market carefully to avoid fueling speculation (Boleat 2003).

3. Demand for and lack of affordable housing

While, housing and construction comes to almost 50% of the Egyptian government's investments according to 2006 figures (Carleton, P. Everhart, S. &

Heybey, B. 2006), there is a higher proportion of informal housing and a lower proportion of home ownership than comparable counties. This is partially due to the lack of an effective housing finance mechanism, but it also contributes to the continuing lack of said mechanism (Boleat 2003). Part of the reason for this lack of affordable housing is that high returns on investment in upper-scale units during the 1980s led to an oversupply of upscale housing and thus a lack of interest on the developers' side in the lower end of the market (Loza 2004). Along the same lines, some researchers believe that the responsibility of developing mortgage finance should be separated from the responsibility of low income housing in the sense that social obligation should not be imposed on lenders or developers (Bahaa Eldin, Mohieldin, Nasr, 2004). Ibrahim Fawzy, Chairman of the Egyptian Investment Authority claims, "It is not he responsibility of the private sector to protect the poor and middle classes. But once the luxury market is saturated, they [the investors] would naturally move to meet the demands of those sectors" (Boleat 2003).

Other researchers claim the problem has a different root: it is not in the lack of housing stock rather it is the lack of affordable housing. There is a mismatch of supply and demand in Egypt, excess inventory of medium and high end properties while demand is for low income housing. This is based on research by the Middle East Ratings and Investors Service (MERIS), which estimates that total annual demand for housing units is approximately 750,000 units while the total supply that is available to the formal real estate market was only 260,000 units in 2004 – which is only about 35% of demand (Carleton, P. Everhart, S. & Heybey, B. 2006). Other studies present different figures that still lead to the same supply/demand mismatch. For example, Samir Makary, professor of Economics at the American University in Cairo, estimates that only about 100,000 units are affordable out of 260,000 units needed annually to accommodate population growth (Carleton, P. Everhart, S. & Heybey, B. 2006). Another research claims that with an estimated increase in housing demand of about 250,000 to 300,000 units annually, only 180,000 (60-70%) was met through formal housing in 1998, as opposed to the 35% of demand met in the 2006 research. Of those 180,000 units, about 70% were classified as low cost, and half of which were built through government's subsidized housing program (Erbas and Nothaft, 2005). However the figures vary, the fact remains that without broad access to mortgage financing, low and middle-income households cannot afford to buy homes in the formal sector so are diverted to the informal sector. While that solves the problem of putting families in homes, it creates a bigger one when these properties cannot be titled and registered (Carleton, P. Everhart, S. & Heybey, B. 2006).

4. Mortgage laws and status

A central problem with the lack of formal housing finance mechanisms is that it prevents those who should be able to own homes from doing so (Boleat 2003). Other researchers make similar arguments that, without mortgages, low- and middle-income groups cannot buy homes whereas a house is often the primary investment and savings tool for those groups (Carleton, P. Everhart, S. & Heybey, B. 2006). More analysts confirm this such as Al Ahram writer Pierre Loza who writes that the high cost of living constrains long-term savings, which would otherwise flow into the real estate market (Loza 2004). Investments by these groups, who should be able to buy property given a proper finance system, are not only used for homes; real estate investment can also be in the form of retail space and small business. Whatever the property is used for, when members of these economic groups save for a purchase, down payment or even loan repayment, there is an increase in the assets available to the financial service sector and demand for more financial services. Researchers also note that housing is the biggest expense for those income groups; it accounts for about 50-70% of their budgets. If housing finance were available, it would allow these groups to use their resources for other opportunities, such as small businesses (Carleton, P. Everhart, S. & Heybey, B. 2006). Comparable findings are presented by Erbas and Nothaft, who add that large groups of households are generally regarded poor credit risk by lenders. Also, these households can have their finances constrained in two ways: they are unable to afford a down payment and/or they are unable to access capital markets for long-term mortgage loans (Erbas and Nothaft 2005).

Researchers also address real estate policy and laws that have had an effect on the mortgage market. Changes to real estate market laws that resulted in the status quo today began in 1996 with Law No. 4 of rent and real estate. This change ended the indefinite passage of tenure from tenant to heirs, limiting rent contracts to a definite period of time with no restriction on price other than it being previously agreed upon (Loza 2004). In 2001, the Mortgage Finance Authority (MFA) was created by presidential decree to stimulate and regulate mortgage lending by lenders other than commercial banks (Struyk 2007). This led to the Real Estate Finance Law of the same year, which contains a strict definition of the loan instrument, specified to be a three-party agreement between the buyer, the lender, and the seller of a property (Struyk and Brown 2006). Everhart, Heybey and Carleton closely examine the 2001 Mortgage Law, which was not implemented until 2004. Its initial goal was to enable borrowers to make a 20% down payment and pay installments for duration of twenty to thirty years. Under the law, buyers would receive titles and lenders would be able to foreclose on a property in case of default for six to nine months. It is modeled after US mortgage regulations. It allows financing from bank and non-bank lenders but the two are regulated differently. Non-bank lenders operate similar to banks but are not limited by strict regulations and lending percentages (Carleton, P. Everhart, S. & Heybey, B. 2006).

Researchers who address mortgage in Egypt examine the current market players. In 2005, operations started with two non-depository mortgage finance companies specializing in housing loans. In 2007, there were two government-owned commercial banks active in making loans and down payment subsidies to moderate-income first-time purchasers (Struyk 2007). Current players include four firms: Al Taameer, Egyptian Housing Finance Company (EHFC), National Societe Generale Bank (NSGB), and the Arab Investment Bank. Al Taamir has an authorized capital of $86.2 million and is owned by a consortium of Egyptian public and private banks. EHFC is split up between the International Finance Corporation- of The World Bank- (20%), Egyptian banks (50%), the German Company for Investment and Development (20%), and the Indian Mortgage Finance Corporation with the final 10% (Carleton, P. Everhart, S. & Heybey, B. 2006). Other players include a cooperation between the Egyptian-Arab Land Bank ad the Housing Development bank, which offer loan terms between ten and twenty years. As government-owned institutions that report to the Ministry of Housing, these two banks are also involved in the national program to provide low-cost housing units on loan terms that include a non-repayable subsidy for a portion of the required down payment (Struyk and Brown 2006). The general guidelines for all lenders include that house purchase loans can either be made at a fixed interest rate for the period of the loan or for adjustable rates under sub-periods or at variable rates within the interest rate according to the cost of funds (Boleat 2003). Even though the mortgage law aims for loan periods between twenty and thirty years, the actual loan terms by Taameer and EHFC average about seven to eight and a half years (Struyk and Brown 2006). By the end of 2005, four years after the mortgage law and one year after its implementation, the value of deals approved came to approximately LE 16 million and reached LE 1.4 billion two years later. Much credit for this increase has been due to the head of the Mortgage Finance Authority, Chairman Osama Saleh (*The Economist*, 2007). Struyk and Brown note the size of individual loans. Their research claims that the actual loan amounts are very large, coming to an average of LE 232,000 per purchase where the household income is about LE 41,000, indicating that mortgage loans are going to high income households (Struyk and Brown 2006).

Several researchers agree on the constraints to a better functioning mortgage market. For example, Struyk and Brown regard probable delays and an uncertain foreclosure process as the sources of difficulties (Struyk and Brown 2006). Everhart, Heybey and Carleton also agree, and add on more sources of difficulties. In addition to registration and foreclosure issues, extending bank credit to the housing sector, lack of valuation information, lack of credit risk information, and complex regulation all serve to constrain the mortgage market (Carleton, P. Everhart, S. & Heybey, B. 2006). As broad as these issues appear, when taken apart and considered individually they represent even wider obstacles. For example, if banks are limited on how much credit they can extend to housing, they would pick borrowers with the lowest default risk, which are not always those who need to benefit from housing finance plans.

B. Mortgage versus installments

Before there were mortgages inEgypt, the most popular option that avoided full payments were installment plans. Struyk (2007) compares installments and mortgages in his study of Egyptian consumer knowledge. He finds that, in the years before the introduction of mortgages, home purchase finance was limited to installment sales by developers, and using the savings of or borrowing from members of family and friends. Given the limits to such funding, only the very rich and those who had made enough money in businesses and in the Gulf could afford to buy into real estate projects, which were out of reach for the majority of the population (McKee 1999). Developers' installment plans generally imply an effective interest rate of about 20% compared to an average of 15% for a regular mortgage rate (Bahaa Eldin, Mohieldin, and Nasr, 2004). As a result of difficult installment requirements and other barriers to housing access for many families, a fifth of Cairo’s residents live in dozens of shanty-towns around the city, according to officials at the Cairo Governorate (McKee 1999).

Research points out the many disadvantages to the buyer that are associated with developer installment plans. First, installments are wholly unregulated, which make them subject to abuse. Also, developers require large down payments, which are often broken up into installments themselves. A critical disadvantage is that with installment plans, the buyer is usually unable to occupy the unit immediately. Most developers require an average of about 70% before the unit can be occupied, even assuming the unit is structurally finished when sold. After the unit is turned over, the buyer is generally expected to invest large sums to complete work that is the developer's responsibility in most other markets, ranging from installing fixtures and appliances to plastering and painting the walls and finishing the floors. Financing for these expenditures is only now being offered by a limited number of financers. When it comes to the individual installments, actual interest rates are hard to determine since the unit sales process includes both the cost of the unit, which is set by the developer, and the financing (Struyk 2007). Boleat also agrees with Struyk, citing that developer interest rates are expensive, set higher than a reasonable mortgage interest rate (Boleat 2003). While the installments are being paid, the title of the property remains with the developer, until payment completion. This is to the disadvantage of the buyer, who is paying for the purchase but is not entitled to the unit (Struyk 2007).

Installment plans are also to the disadvantage of the seller, or the developer, not just the buyer, though in fewer ways. For example, installment plans tie up capital for the developer, who would otherwise use payments from one project to finance another (Boleat 2003). Also developers only offer installment plans when the housing market stagnates and forces them to cut prices and devise less demanding payment plans in order to recoup their original investment. In the stagnation of 2004, the depreciation of the Egyptian Pound hindered them from doing even that (Loza 2004).

C. Registration

Egypt's property registration system has been described as, "onerous and expensive for applications, vastly underutilized, excessively bureaucratic and complex, misunderstood and unpopular with the public, and incapable in current for of promoting a real estate mortgage market" (Struyk 2007). As a result, most houses are built on lands that are not registered, and that puts more knots in the complexity of registering real estate (Bahaa Eldin, Mohieldin, Nasr, 2004). The real, tangible problem associated with unregistered property arises in what owners can and cannot do with their property. If owners, or residents, do not have a formal title to the property, they cannot use it as collateral for other investments (Struyk and Brown 2006).

Part of the difficulty of property registration is time frame. Registering a mortgage and title transfer can take up to 193 days in Egypt. Delays in the process may be due to various factors, such as the operational infrastructure of the registration system, the bureaucratic process itself, the capacity of the registration staff, or the overall legal environment (Butler, Kravkova, and Safavian, 2009). To avoid such long delays in mortgages that are due to registration issues, the Real Estate Finance Law of 2001 was amended in 2005. A mortgage could be issued for an unregistered property if the property were deemed to qualify for registration. This change dramatically increased the number of properties eligible for mortgage loans (Struyk and Brown 2006).

Another problematic aspect of registration is cost. Registration fees used to be as high as 12% of the property's value. Over several years, they were reduced until 2006. In 2006, fees were set at a minimum of LE 500 and a maximum of LE 2,000. The actual fee would depend on the property size in square meter (Struyk 2007).

Bahaa Eldin, Mohieldin, and Nasr in their research for The World Bank outline the requirements for an efficient and comprehensive real estate registry system, which they claim is a prime requirement for a mortgage market. According to them, the system must be efficient in the sense that it allows the transfer of ownership in a timely manner. It must be inexpensive so fees do not prohibit registration. It also must be comprehensive, in the sense that all properties should become either registered or eligible for registration. It must be uncomplicated so that all properties are registered when a certain reasonable procedure is followed. Finally, it must be definite in the sense that once registration is complete, it may not be challenged, annulled or doubted (Bahaa Eldin, Mohieldin, Nasr, 2004). Other research confirm the importance of such an efficient registration system, citing that inefficiency in property registration can create a bottleneck in the overall housing finance system (Butler, Kravkova, and Safavian, 2009).

D. Foreclosure

According to research, foreclosure is an important concept in mortgage because it balances the rights of lenders and borrowers in the even of a loan default. However, laws in some countries grant excessive protection to borrowers who may have fallen on hard times and that protection may impose large costs on lenders. As a result, lenders may adjust lending rates to these costs, with the outcome being higher interest rates, larger down payments or credit rationing for the overall market (Butler, Kravkova, and Safavian, 2009).

Some works compare foreclosure in mortgage to eviction in rent. Pierre Loza of Al Ahram claims that eviction is even difficult in rent. A landlord would only be able to evict tenants in four cases: if the tenants convert residential units to non-residential use without the landlord's consent, if the tenant sublets the unit without the landlord's consent, if the tenant fails to pay rent fifteen days after it is due, or if the building or unit collapses (Loza 2004). It is always undesirable for anyone to lose a home because of inability to repay a loan, but when laws make security for lenders impossible, housing finance is prevented in the first place. Interest rates rise out of the reach of many consumers as the lenders try to ensure their own security. Therefore, potential borrowers would have to resort to other means of finance, such as developer installments, or are barred from the market (Boleat 2003). Other research confirms this, noting that in practice, mortgages carry the interest rate of unsecured loans (Bahaa Eldin, Mohieldin, Nasr, 2004).

E. Professional training and mortgage education

Within the region, Egypt and Turkey are still attempting a full, national unveiling of a mortgage system, while cities like Doha and Abu Dhabi are at the forefront of the mortgages in the Middle East (Bergsman 2006). When it comes to consumer knowledge of the national mortgage system, research shows that the Egyptian consumer has more specific knowledge of mortgage than of property registration, because mortgages are relatively new and are receiving attention (Struyk 2007). Struyk conducted a survey on consumer knowledge with a sample of 505 middle and upper middle-income Egyptian families, all of whom are either recent of potential home purchasers. Results include that 85% reflect high levels of knowledge about inability to have multiple mortgages on the same property; 90% know about the requirement for a mortgage to be registered; only about 40-45% know that a likely consequence of default is foreclosure. Results also show that potential borrowers have negative reactions to the present high interest rates and the prospect of carrying long-term debt (Struyk 2007).

Bahaa Eldin, Mohieldin, and Nasr also address valuation, an important aspect of mortgage training and education in the World Bank research. They claim that there is no consistent approach to property valuation, limiting the use of the whole process. In more developed countries, valuation is simple: valuation specialists identify the price of recently sold comparable properties. However the lack of a strong housing market in the Middle East adds to the difficulty of valuing houses on the market, a task that requires skilled specialists. While it may seem like a good idea, valuation based on the cost of construction is not advisable, since in the long-term, the relationship between the price of a unit and the cost of building it is not strong. In active real estate markets, the price of a finished unit can increase more rapidly than the increase in the cost of construction, and the opposite is true in a depressed market (Bahaa Eldin, Mohieldin, Nasr, 2004).

Several international agencies have taken part in developing programs to enhance Egypt’s mortgage market. USAID started a five-year project composed of four parts: legal reform and technical assistance and training to lenders; modernization of the property registration process in urban areas (with pilot projects in two districts in Cairo to create a systematic title registry template); establishment of a credit information system to assist lenders in assessing risk; and the development of a broader range of financial instruments for the capital markets. The project is implemented by US agency Chemonics International Inc, and is providing assistance to the Ministry of Justice for property registration, the Ministry of Investment for the Mortgage Finance Authority, the Capital Market Authority, and the Central Bank of Egypt for credit information service (Carleton, P. Everhart, S. & Heybey, B. 2006). Other research cites the same program with more participants.

Bergsman's study of Middle East mortgages cites the program undertaken by CampusMBA (the educational division of the Mortgage Bankers Association in the US), contracted by USAID to develop training programs in cooperation with Chemonics. In May 2005, CampusMBA had its first visit to Egypt to better understand the course and curriculum as well as the needs of banks and the Egyptian Mortgage Authority. CampusMBA sends Certified Mortgage Bankers, who are senior level mortgage industry executives, to Cairo. The program started with the Egyptian Primary Market Course on the basis of mortgage banking, delivered in both Arabic and English. The goal of the program's initial phase was to create a core group of Egyptian mortgage professionals who could recreate and repeat the training (Bergsman 2006).

Also involved in training programs is the World Bank, which is involved with the Egyptian government on a program to expand property registration based on lessons from the USAID pilot project mentioned above. The US Appraisal Institute is helping to train and certify appraisers (Carleton, P. Everhart, S. & Heybey, B. 2006).

Research cites the importance of analytical results from a policy perspective as important because they inform policymakers and lenders the effectiveness of educational campaigns (Struyk 2007).

F. Banks and banking

Although there are different models of housing finance systems, all of them are based on banking systems in practice. Mortgage lending is thus only a special type of bank lending where loans can be financed by retail deposits or wholesale funds. Whatever the type of loan, in most countries banks are the most significant lenders (Boleat 2003). Therefore, it is important to consider research on banks and banking in Egypt.

According to research, Egypt's banks only serve 10% of its residents, with the rest of the population being too poor to bank. This creates a need for private sector banks to offer financing solutions to low-income groups. A number of banks are already attempting to increase their penetration of the small and medium enterprise market. Microfinance solutions remain minimal, even though this segment of the population is not the most profitable it is by far the largest (*The Banker* 2008).

Credit rating agency Standard & Poor's ranks Egypt's banking sector as relatively risky, with a score of 8/10 and "10" being riskiest. This rating is at North African levels, but higher than risk ratings of banks in the Gulf (*The Banker* 2008). Not all research is consistent, though. One year later (2009) The Banker published results citing at the average loan to deposit ratio of Egyptian banks is 54%, creating a "goldmine of liquidity." However, the same research claims that the biggest threat facing Egypt's banks is asset quality (*Corbett, 2009*). The Banker confirmed this claim with another, in 2003, banking law introduced stricter rules to improve asset quality, and also to increase minimum capital requirements and force consolidation

(*The Banker* 2008). In other published research, The Banker examines the reason Egyptian banks survived the 2009 global economic downturn. It claims this survival was due to the unsophisticated nature of the system, as well as it not being mature enough to be exposed to the structured assets that were behind the fall of banks in more developed countries. For example, the non-existence of a mortgage market saved them from a collapse in housing market prices, as international exposure is limited. Also, retail assets, including home loans and credit cards, still only make up about 10% of total assets in Egypt's banking sector (*Corbett, 2009*).

A look at the condition of loans in banks validates research. For example, The Banker claims that non-performing loans, which are loans that are at default or at risk of being at default, range between 20-25% in banks. Boleat's research on lenders also makes two important points. One, the loan-to-value ratio (LTV) is a key variable in assessing the risk of a loan and the likeliness of default. Loans with LTV of 85-90% have expected loss ratio twice as high as loans with an LTV of 75-80% and eight times as high as loans with an LTV of 60-65% (Boleat 2003). In explanation, the higher the LTV ratio, the more likeliness of default. Second, banks matching assets and liabilities carry no interest rate risk. For example, a bank that makes all loans at variable rates and funds those loans through deposits also at variable rates, or makes twenty-year loans that are financed by twenty-year bonds (Boleat 2003).

By 2006, more commercial banks were taking an interest in home purchase lending; this was partly due to their need for new loan products to absorb their liquidity (Struyk 2007). Boleat agrees and adds that a striving house finance mechanism would deepen and broaden the Egyptian financial system in general. This would be through people who would not otherwise use formal financial institutions to do so if it will help improve their housing conditions (Boleat 2003).

The Central Bank of Egypt (CBE) has a restriction on real estate related credits to 5% of a bank's loan portfolio, a limitation that the CBE has indicated could be adjusted if it becomes an impediment to loan growth (Struyk and Brown 2006). Research by Bahaa Eldin, Mohieldin, and Nasr also discuses that limitation. They claim that when the 5% was imposed, most banks were already above that ceiling; as this restriction applies to loans to homebuyers, developers and commercial premises and hotels. Individual loans to buy homes and developer loans to build projects are treated equally. In more developed countries, like the United Kingdom for example, the two types of transactions are separate and even managed by different departments in the banks and financial institutions. A key reason for this separation is that home buyers should be secured by the buyer's income and by the property in question but a loan to a developer has not such security and so should carry a higher interest rate (Bahaa Eldin, Mohieldin, and Nasr (2004). Boleat also provides a comparison to other countries, citing that in few countries do regulations set a maximum proportion of a bank's balance sheet that should be in the form of mortgage loans (Boleat 2003). However, The Banker interviews Henri Guillemin, managing director of Credit Agricole in Egypt, who states, "[the government] understands the banking industry very well. We can speak to then, they know what we do and they are on the same wavelength. What we are missing is more coherent regulation" (*Corbett, 2009*).

The Banker states in other research that Egyptian banks have no exposure to subprime mortgages, which are a type of mortgages made out to borrowers with lower credit rating and those who have higher risk of defaulting. Lenders charge a higher interest rate to compensate the higher risk. Some gulf countries like the UAE and Kuwait have similar mortgage practices through emergency lending facilities to help ease credit liquidity (*The Banker* 2008).

G. Government regulation

Government regulation of mortgages is discussed within most research on mortgage, but some researchers address it specifically. Erbas and Nothaft cite that the lack of well-defined procedures for enforcing claims, recurring defaults, and difficulty in evicting former owners of foreclosed property are among the reasons that hinder further development of housing finance (Erbas and Nothaft 2005). Boleat is another researcher that specifically addresses regulation. He defines the context within which mortgage finance operates: there is a need for financial stability- he explains that long term loans are not possible when inflation and interest rates are high and volatile and there must also be general economic stability and a trust in the financial institutions. Market players must also be confident that they are not at risk of changing policies and regulations (Boleat 2003). Boleat cites that with restrictive borrowing policies, households tend to consume more and save less as the purchase of a home locks up their capital, which would otherwise be a savings tools (Boleat 2003).

Aside from the context in which mortgages should operate, he also discusses the general approach to what regulation should be like, or in other words, public policy on financial regulation. Regulation should ensure the financial soundness of lending institutions, protect the public and develop the market. These objectives may conflict in the short term, but in the long term, the public is protected from losing savings and the financial market can develop only if the institutions are sound. Boleat states that the ideal state of borrowing would be at an interest rate of three to four percent above the cost of funds, but in most emerging markets the actual spread is five to eight percent and in developed markets it is under two percent. An effective regulatory system decreases that spread and thus allows for expansion in the mortgage market (Boleat 2003).

Regulators should take certain factors into account when looking at the overall risk structure of a lender's loan portfolio. There should be arrangements for ensuring proper valuation of mortgages properties. Loan to income rations and a track record of borrowers also must be taken into account. Third, regulators should look at the concentration of risk by type of borrower, type of property or location of property. Finally, there should be a form of guarantee, such as mortgage insurance, that compensate lenders in case of default, foreclosure, and the property being sold at a loss (Boleat 2003).

Boleat then discusses practices that regulators should limit or prevent. First, lenders should not use variable rate deposits to finance long term fixed rate loans. If there is a significant rise in short term rates, their losses will also be significant. Second, if regulators wish to limit mortgage lending for practical reasons, they should do so by setting capital requirements rather than balance sheet controls. When balance sheet controls are used, banks can continue to make loans for house purchases but without having any real mortgage security, unlike with setting capital requirements (Boleat 2003).

Further from a policy perspective, mortgage markets have a positive impact on savings. Erbas and Nothaft address the reasons why. First, savings from mortgages have high returns and lead to rapid urbanization. Also, mortgages secure collateral against market fluctuations. Housing prices are less volatile than other assets, and thus are an attractive savings channel. Fourth, mortgages allow for increased labor mobility and increased employment potential. Finally, general subsidies are better targeted though housing and mortgage markets (Erbas and Nothaft 2005).

H. Credit risk bureaus

Although lightly addressed in available research, credit risk bureaus are an important aspect of the mortgage market. One set of researchers, Carleton, Everhart, and Heybey, address it even though none of their claims are positive. They claim that there are no credit risk bureaus (based on research conducted in 2006) but that there is one currently in development by a group of banks and financial institutions. They also claim that the informal sector, which is quite large in Egypt, has little incentive to report to the tax authority, and so might not be accounted for by credit agencies anyway. Lenders often assume the lower-income people have poor credit risk and they are denied loans. This assumption does not always hold true and creditworthy borrowers are often denied funding. The opposite is true for higher income groups, which are granted loans. Consequently, a housing shortage remains where housing finance is most needed (Carleton, P., Everhart, S., & Heybey, B. 2006).

IV. Methodology

Primary research was conducted through personal interviews with mortgage experts and market players, composed of regulators and prominent lenders. Qualitative research was chosen for several reasons. First, it is important to this topic that experts are given the capacity to discuss their views freely, without the limit of written questions. Also, interviews are more personal, one on one, and thus work to help the interviewee share more than they would through less personal methods. Third, there is a time factor involved. When seeking information from experts, in this case, for example, bank officials, their time is valuable and limited. More would be willing to spend that time with a real person than with a piece of paper. Interviews provide insight on the issue *now;* and this is important since with housing and mortgage markets, rates change constantly and what might have been published and true last year may not be so this year. Last but very importantly, personal, qualitative methods that take an interest in the source (interviewee/case study subject) is likely to extract *real* information. The interaction alone provides additional information through noticeable attitudes that can best be expressed and observed in person.

This research relies on several strategic interviews, separated into interviews with regulating institutions, interviews with lenders, and interviews with real-estate developers. Research participants are outlined and detailed as follows:

A. Institutional players: interviewees

Extensive face-to-face interviews were conducted with senior representatives of many of the main institutions involved in the mortgage market in both the private and public sectors. This section briefly describes the institutions interviewed. The information presented was obtained during the interviews or from the organizations' websites.

1. Regulators

- *The Central Bank of Egypt (CBE)* is an autonomous public legal body that is responsible for, among many objectives, realizing price stability and the banking sector soundness, setting and implementing the country's monetary policy, setting and implementing banking policies, managing liquidity in the economy, and supervising the units of the banking sectors
- *The Egyptian Financial Supervisory Authority (EFSA)* is the result of a 2009 merger between agencies that supervised and regulated non-banking financial markets; specifically: the Capital Market, the Exchange, all activities related to insurance services, mortgage finance, financial leasing, factoring and securitization. In relation to mortgage finance, EFSA came to replace the Mortgage Finance Authority. EFSA's training arm is the Institute of Financial Services, which offers mortgage training for EFSA employees as employees of the mortgage market.
- *The Egyptian Banking Institute (EBI)* is the training arm of the CBE. Its clients are the banking and financial sectors. One of its important roles is the transfer of CBE regulations, new topics, and initiatives through seminars and conferences. EBI's areas of work are composed of Bank and Finance (including mortgage finance), SME Unit, IT Training, Management (soft skills), and Corporate Governance. Its aim is to promote access to finance to those who need it. One way to do so is to begin with making people more bankable. EBI offers courses to employees of its forty member banks. Courses are also open to the public, which members have to pay for themselves. Their employer pays for bank employees.

2. Lenders

- *Tamweel* is the financial arm of Orascom Hotels and Development (OHD), one of the largest real estate developers in Egypt, responsible for projects such as El Gouna and Haram City. Tamweel consider themselves the current best performing mortgage company in Egypt. It was established in 2007, becoming the third specialized mortgage company established under Law No. 148 for mortgage lending.
- *Ahli United Finance* is a subsidiary of the Bahraini owned Ahli United Bank and acts as the bank's mortgage lending arm. Ahli United Finance has an approved list of developers, to whose clients only can AUBE lend.
- *Tayseer* is a specialized mortgage finance company, which is also the financial arm of Talaat Mostafa Group, one of the largest real estate developers in Egypt.
- *Nationale Société Générale Bank (NSGB)* is one of the prominent banks in Egypt and in 2008 it launched its mortgage finance program under the name Aqarat. Aqarat has since been active in the mortgage market.
- *Alexbank* was established in 1957 and is now owned by the Italian Intesa Sanpaolo Group. Alexbank began its mortgage program in 2005.
- *Taamir* was the first specialized mortgage company formed under Law 148. It is owned by a consortium of public organizations, including the Ministry of Housing, the Housing and Development Bank, Misr Insurance, National Investment Bank, and Misr Life Insurance. Taamir is one of the very few companies that have almost reached their maximum licensed capital of LE500 million, standing now at LE425 million. It also has the largest market share of all lenders, including banks, with over 22,000 clients. Of the current

outstanding loans, about eighty-five percent are out to low-income borrowers, also setting Taamir apart from other mortgage companies. Taamir is the only mortgage lender that finances construction, providing it is being done by the end user and not by a developer. It also offers full-range financing, including housing, refurbishment, and mortgages for trade and administrative facilities.

- *The National Bank of Abu Dhabi (NBAD)* began operations in the Egyptian mortgage market in 2006 as an attempt to diversify its products and meet the needs of its clients.
- *The Commercial International Bank (CIB)*, one of the most prominent banks operating in Egypt, started mortgage finance in 2005 under the department of Residential Property Finance. The department has since evolved in many ways, including leadership, nevertheless CIB remains a mortgage lender.
- *The Egyptian Mortgage Refinance Company (EMRC)* is the only specialized mortgage refinancer in Egypt. EMRC is owned by a consortium of public institutions and banks, including: the Central Bank of Egypt, National Bank of Egypt, Mortgage Finance Guarantee and Subsidy Fund, Arab Bank, HSBC, Societe Arabe Internationale de Banque, BNP Paribas, Commercial International Bank, Faisal Islamic Bank, Banque Misr, Al Watany Bank of Egypt, Taamir Mortgage Finance, Misr Iran Bank, Egyptian Gulf Bank, Housing and Development Bank, Ahli United Bank, Egypt Arab Land Bank, Tamweel Mortgage Finance Company, International Finance Corporation, United Bank. EMRC has not yet borrowed from banks in Egypt to increase its capital, but has borrowed from The World Bank at an interest rate of 9.3% and lends at a rate between 10.25% to 12.5%.
- *The Egyptian Housing Finance Company (EHFC)* was established in 2004 as a

vehicle to bring in more business to the booming real estate market at the time of the initiation of Law 148, 2001. It was established through strong shareholders with massive experience in development, real estate, finance and mortgage. EHFC is now one-hundred percent owned by Crédit Agricole Egypt. It was formerly owned by the Housing and Development Bank along with several other finance corporations, including the International Finance Corporation (IFC) and the Indian Housing Finance Development Corporation (HDFC). HDFC was of strong significance in the start up of EHFC as it is extremely well-versed in mortgage and provided EHFC with technical assistance.

3. Developers

Talaat Mostafa Group (TMG) is one of the oldest and most prominent large-scale real estate developers in the Egyptian market. The group is responsible for mega projects such as El Rehab City, Al Rabwa, and Madinaty.

In order to enable this research to extract information more openly, interviews were mostly open discussions of different topics important to research. The purpose of carrying them out in the looser form of discussion was to not limit answers and give room to the interviewees to add their own points, which might not have been asked about and therefore add to research results. In other words, the more the interviewees we given the change to talk, the more addition to research results.

An alternate approach to research is the quantitative one, but it not well suited for the purpose of this research. Quantitative research separates theory and data, and in mortgages, theories are not set it stone, and procedures can be changed according to the market environment. Also, quantitative research can be independent of context, while for this research context and situational data are key to address how mortgages are performing and why. Quantitative data is further unsuitable due to reliance on many cases and/or subjects, while this research addresses very specific cases and subjects (buyers, sellers and regulators of mortgage) that are not found in abundance and publicized in the Egyptian market. More importantly, quantitative research focuses on variables rather than on interactive processes and events that lead to certain outcomes (as with qualitative research), which is again the case with an emerging mortgage market (Neuman 2006).

B. Research limitations

For the purpose of research, three types of institutions were interviewed: regulators, lenders, and one of Egypt's largest real estate developers.

Confidentiality was a primary limitation to the lenders' interviews. Banking information is sensitive and it was sometimes difficult for bankers to give insight while still keeping clients' and the bank's privacy. Therefore, some findings remain anonymous or are not traced back to a specific institution, as per the request of some interviewees on specific pieces of information.

Limitations to this research were also in access to market players. Of the three types of market players sought for interviewing (regulators, lenders, and real estate developers) mortgage lenders were most eager to participate. Next came regulators, who were willing to participate but did not seem as keen as lenders. Real estate developers were the most difficult to persuade to participate. As a result, only one real estate developer is cited. Others contacted were not interested in mortgage research and so would not spare the time to participate. While this does not have altering effects on research findings, it would have been beneficial to assess the degree of harmony of different developers' opinions of the mortgage market. Clear barriers and recommendations to mortgage finance in Egypt were found through harmony in different lenders' statements, only because so many were interviewed so there was a chance for comparison. While the one real estate developer is certainly among the largest in Egypt, there were none else to compare.

Some types of market players in the mortgage market were left out of research, including mortgage borrowers and some legal entities, such as notaries and involved ministries. Notaries are an integral part of the mortgage process because of the amount of legal documentation within that process. Ministries involved in the mortgage, especially the Ministry of Housing and Development, are also important regulators of the market due to their influence over the housing supply. Mortgage is a massive subject and its sub-topics can be never ending, especially with so many ties to the local and global financial markets.

V. Research Findings

A. Introduction

There are three types of mortgage finance lenders in Egypt: specialized mortgage companies, specialized banks (such as the Housing and Development Bank), and trade banks (such as Commercial International Bank - CIB). Specialized mortgage companies are regulated by the Egyptian Financial Supervisory Authority (EFSA) and both types of banks are regulated by the Central Bank of Egypt (CBE). (Bank officer) As banks ventured into mortgages, problems appeared and had to be addressed. Specific problems and lenders' reactions and recommendations are discussed in further sections. Since the passing of Law 148 of 2001 on mortgages, its implementation and following amendments, 2004 and 2008, banks have been changing credit policy to be tailored to obstacles in mortgage loans. (Bank officer).

Banks' attention to mortgages gradually increased after the implementation of the mortgage law. They started to respond the real estate market boom by 2005, labeling the mortgage market as an "unexplored diamond" (Bank officer). Among the reasons mortgages are attractive to banks is because they make the client stay with the bank, or the lender, for at least ten to fifteen years. Also, the introduction of mortgages to the banking sector came following an important socio-economic shift occurring over the past ten to fifteen years. As more banks and multinational corporations infiltrated the employment market, more employees were exposed to a foreign work culture. "BMW drivers used to be self-employed, but that is not the case anymore." People started making more money, which lead to higher aspirations in a domino effect (Mortgage company officer). This is of positive use to the mortgage market because as aspirations grew, so did demand for more expensive homes, which could be attained through mortgage finance.

Experts in the field have described mortgage lending as, “more important than the gas can and the loaf of bread.” Hamed Salama, the Sector Head of Internal Audit & Compliance (Mortgage company officer). Without a proper home to live in, there is no place for the can of gas nor the loaf of bread.

B. Regulations

Lending related to housing and construction is divided into real estate, which is lending for corporations, and mortgage, which is lending to individuals. By law, the CBE regulates all banks; this includes public sector banks, private banks, and branches of foreign banks (Regulatory agency officer). While specialized mortgage companies are regulated by EFSA, there is also indirect regulation from the CBE. According to a senior officer at EHFC, since companies are borrowers from banks, so CBE regulations affect bank policies, which consequently affect borrower mortgage companies (Mortgage company officer).

There are two regulations issued by the CBE concerning mortgage lending. First, there is a five-percent ceiling of the banks’ loan portfolio on real estate lending. Second, provision for real estate lending is at fifty-percent of the loan value, as opposed to twenty-five percent in other sectors (Regulatory agency officer).

Most banks would like to see a ceiling higher than the CBE’s five-percent for real estate lending. The ceiling is there due to the risk of long-term loans. As a solution, some banks have developed specialized mortgage companies that lend out of their own capital or through loans from other lending institutions (Regulatory agency officer). Other banks overcome the regulation through securitization (Bank officer). Even some specialized mortgage companies agree that the 5% CBE regulation is unrealistic. One particular company is Tamweel, the mortgage arm of Orascom Hotels and Development, which consider themselves the current best performing mortgage company in Egypt. It was established in 2007, becoming the third specialized mortgage company established under Law No. 148 for mortgage lending (Mortgage company officer).

As for the second regulation, the CBE compels banks to keep a provision of 50% of mortgage loans. The concept of provision is to decrease risk of non-performing loans or default. For example, if a bank lends a mortgage for LE100 million, it would have to set aside LE50 million. This amount is deducted from the bank's capital and returned when the borrower completes the mortgage installments. Provision is only for the bank's books, it is an internal process but is reported to the CBE (Regulatory agency officer). However, provision is not at a fixed rate, the provision amount increases as borrowers' payments are late. General provision, as regulated by the CBE, rises to twenty-percent after one month delay in payment, to fifty-percent after two months delay, and to one-hundred-percent of the loan amount by the third month of delay in payment (Bank officer).

Another guiding principal by the CBE is the debt burden ratio (DBR), which is the percentage of income that can be debt. The average DBR for which banks give loans is thirty-five percent (Regulatory agency officer). For example, if a borrower makes LE10,000 a month, and pays installments for a car loan and a personal loan for a combined LE2000, and the thirty-five percent DBR is applied, then the borrower has a maximum left over of LE1500 to take a mortgage, or to take on another type of banking debt. Some banks, such as the National Bank of Abu Dhabi, are above that average implementing a DBR of sixty-percent (Bank officer).

A change to the law has to come through Parliament, but changes in regulations can come through Ministerial Decrees (Mortgage company officer) and changes to the mortgage law have been specific to regulations. The mortgage law was first amended in 2004 to create more flexibility within the market; instead of mortgage only allowing mortgages for registered units, units that were eligible for registration could also be mortgaged. In 2008, there was another amendment to mortgage regulations. Not only did the mortgage unit have to be registered or eligible for registration, it also had to have completed utilities, specifically water and electricity. This regulation was only for banks. Companies could still finance units under construction but the amount of finance had to be equal in ratio to the percentage of construction completed, and only for a specific amount of their portfolio, approximately thirty percent. (Bank officer)

With the global financial crisis, a problem started to appear with the Emirati real-estate developers Damac. The CBE responded by setting additional regulations that banks do not finance mortgages in compounds that are not completely finished, including construction of all phases as well as water and electricity lines (Bank officer).

C. The mortgage market

1. Current market data

According to the latest EFSA quarterly report, the current volume of the mortgage market stands at approximately LE5.4 billion, divided almost equally between banks and specialized mortgage companies, as shown in Table A. Table B shows that over sixty-six percent of mortgage lending is made to low-income clients, with a monthly income of LE1,750 or less. While the largest market base is low-income groups, Table C shows that the highest value of mortgage loans is made out to high-income groups. While the percentage of low-income lending is significant, the amount of overall lending- if considered accurate- is not. This is especially true when the total number of mortgages, by number of investors, or mortgage borrowers, up to

September 2011 (24,876 as per data in the Table A below) is compared to estimate demand for 260,000 units needed annually to accommodate population growth (Carleton, P. Everhart, S. & Heybey, B. 2006).

Table A:

Important Details and Indicators			
Indicator	Cumulative – September 2010	Cumulative – September 2011	Growth (%)
Total mortgage lending by mortgage companies (in millions, EGP)	1961	2808.9	43.2%
Total outstanding debt by investors to mortgage companies (in millions, EGP)	1381	1889	36.8%
Total mortgage lending by banks (in millions, EGP)	2160	2600	20.4%
Total number of borrowers	16298	24876	52.6%
Average loan to value ratio (LTV) %	48.1%	45.6%	5.2%
Average Interest Rate (%)	12.5%	12.3%	-1.5%
Average loan amount (in thousands, EGP)	120.4	112.9	-6.2%
Average repayment duration (year)	16.1	16.4	1.9%
Average monthly installment (EGP)	2983	2737	-8.2%

**Source: Egyptian Financial Supervisory Authority Quarterly Report July-September 2011. www.efsa.gov.eg*

Table B:

Borrowers by monthly income					
Monthly Income (EGP)	Cumulative- September 2010		Cumulative- September 2011		Percentage change
	Number	Share	Number	Share	
Up to 1750	10875	66.7%	17118	68.8%	57.4%
1751-2500	1011	6.2%	1321	5.3%	30.7%
2501-5000	1321	8.1%	1781	7.2%	34.8%
5001-10000	604	3.7%	858	3.4%	42.1%
10001-20000	709	4.4%	1064	4.3%	50.1%
20001-100000	1250	7.7%	1924	7.7%	53.9%
More than 100000	528	3.2%	810	3.3%	53.4%
total	16298	100%	24876	100%	52.6%

**Source: Egyptian Financial Supervisory Authority Quarterly Report July-September 2011. www.efsa.gov.eg*

Table C:

Volume of mortgage lending by monthly income of borrowers					
Monthly Income (EGP)	Cumulative- September 2010		Cumulative- September 2011		Percentage change
	Amount (million EGP)	Share	Amount (million EGP)	Share	
Up to 1750	365	18.6%	555.9	19.8%	52.3%
1751-2500	57	2.9%	73.4	2.6%	28.8%
2501-5000	102	5.2%	134.1	4.8%	31.5%
5001-10000	84	4.3%	102	3.6	21.4%
10001-20000	142	7.2%	175.3	6.3%	23.5%
20001-100000	543	27.7%	804.3	28.6%	48.1%
More than 100000	668	34.1%	963.9	34.3%	44.3%
total	1961	100%	2808.9	100%	43.2%

**Source: Egyptian Financial Supervisory Authority Quarterly Report July-September 2011. www.efsa.gov.eg*

The two tables above provide data on mortgage lending by income level. The majority of mortgage borrowers, or investors, are from low-income groups (Table B) while the bulk of mortgage loans is made to those making over 100,000 EGP monthly, closely followed by the group making between 20,000-100,000 EGP monthly. This comparison revisits the issue of the bulk of mortgage lending not going to those groups who may need it most.

2. Some market practices

Most lending is based on a decreasing interest; meaning interest is calculated according to the remaining repayment amount. Banks in Egypt do not standardize the payment through amortization, as is the case in many other markets. Therefore, as the debt is being paid off, interest is charged on a progressively smaller amount. So while the given interest rate may seem high, it decreases over the years of loan repayment. For example, a decreasing rate of fourteen-percent comes to about nine-percent over the repayment term of fifteen years.

Many mortgage companies practice transfer of mortgage portfolios. This is a process by which a mortgage company buys off all the outstanding installments in a developer's portfolio. The first lender's (the developer's) clients become the clients of the mortgage company, and are notified through a legal notification of transfer (Mortgage company officer). The buyer pays the same installments but to the new mortgage lender. The mortgage lender benefits off the interest rate and the developer benefits by receiving full and final payments from the portfolio buyer rather than payment through a trickle of buyer installments. Refinancing through the Egyptian Mortgage Refinance Company (EMRC) is possible but not mandatory. Lenders can go for partial equity and partial refinancing to increase funds, or bank loans. (Mortgage company officer). Aside from banks, EMRC is the only official mortgage refinancer in Egypt.

Most mortgage lenders, whether specialized mortgage companies or banks, require borrowers to submit post-dated checks with the repayment amounts and according to the agreed upon repayment plan. On the one hand, mortgage lenders are borrowers from banks, so the checks collected from clients serve as the company's borrowing collateral and mode of payment (Mortgage company officer). On the other hand, the checks are not only used as a repayment method, but also as a pressure tool. In case of default, foreclosure cases are a different route in court than default in checks, which are considered misdemeanor cases. For lower income borrowers who do not have the capacity to write checks, lenders may take trust receipts (Mortgage company officer). The idea of going to court scares lower income borrowers, who realize the risk of jail and seizure of assets that may result from passing non-performing checks or trust receipts.

In the case of the lender reclaiming the unit in question in case of borrower default, the unit is either sold through an auction or added to the lender's assets. To avoid the process of foreclosure, which is discussed in later sections, some clients may ask for special payment schemes, such as rescheduling payments to prevent default. This is beneficial for the lenders as they are still making money off repayments, just under a different scheme (Mortgage company officer).

3. Common issues

a. Security

Although the mortgage law and its regulations are meant to protect all three sides in a mortgage agreement (the buyer, the seller, and the lender), the market has demonstrated extra measures of guarantee. For example, all lenders interviewed provide mandatory life insurance with mortgage loans, in case of death or permanent disability of the borrower, to ensure payment continues. The mortgage law specifies that the borrower cannot be above sixty-five years of age at the end of tenor (Mortgage company officer). When security measures for each side are compared, lenders claim that a mortgage borrower is more secured than through developer installments or direct purchase because they are backed by banks' legal departments. Also, some lenders practice what is called bridging collateral, meaning they do not take the guarantee of the mortgaged unit, but any other unit or capital owned by the borrower (Bank officer)

In case of late repayments, specifically, three months delay, the lender has the right to take the borrower to court after three consecutive months. During the first two months of default, the lender pressures the borrower with calls, warning letters and site visits. If a case is to make it to court, it happens through a mortgage broker, who is registered with EFSA, and who is paid in percentage of the loan in question, ranging from half a percent to two and half percent (Mortgage company officer).

b. Credit rating

Methods of credit evaluation are separated into the Commercial Credit Registry for corporations and the I-Score for individuals (Regulatory agency officer). Before the I-Score, lenders relied on CBE reports to assess borrower credit rating, but CBE reports did not provide detailed history. Borrowers with poor credit rating are placed on the CBE's 'negative list' and lenders are prohibited from lending to those on the negative list (Regulatory agency officer). "The credit bureau is the bible," but further credit evaluation is carried out even after the credit bureau green light (Bank officer). Credit worthiness assessment for borrowers who are employees is usually calculated through required documents, such as a human resources letter and bank statement. When there is a lack or difficulty in obtaining such documentation, other forms of credit worthiness assessment may include a 'field questioning', which is the lender seeking information about the potential borrower around their residence and place of work (Regulatory agency officer).

The CBE takes a risk-based approach. Everything is translated to risk and the interest rate is derived from the level of risk. "Everything is rated by the CBE in some way. For example, an individual working for a multinational corporation is rated higher than another working for a no-name company." Ratings are also determined by income, years of work, and residence. Residence is an especially unique rating because some areas are labeled as 'negative areas' to denote lower income areas. In these areas, there are, for example, no ATMs for higher-end banks but only for some public banks (Regulatory agency officer).

c. Low income housing finance

Very few lenders provide mortgages for low-income housing. The majority finance higher income groups. Low-income mortgages can be co-financed with the

Mortgage Finance Guarantee and Subsidy Fund, which is the government arm to promote and assist in mortgage finance (Mortgage company officer). By law, installments for low-income borrowers cannot be more than twenty-five percent of their income. Low-income is defined as a maximum monthly income of LE1750 for singles and LE2500 for families (Mortgage company officer).

One specific example of dedicated mortgage lending to lower-income groups is that practiced by Tamweel. As the lending arm of OHD, Tamweel's contribution to low income housing finance is embodied in Haram City and Haram Life. Haram City and Haram Life are low-income housing facilities in Giza, initiated by Eng. Samih Sawiras of Orascom Hotels and Development.

Haram City and Haram Life are composed of 50,000 unites, of which 10,000 have been completed. Tamweel finances over half of the completed units. At the start of the project, units average sixty-square meters in size at an average price tag of LE60,000 to LE80,000 (Mortgage company officer).

d. Mortgage finance and developer installment plans

Competition to mortgage lending as a practice is found in developer installment payment plans. To the consumer, both developer installments and mortgage finance are a more supportable form of payment than upfront full payment for a real estate unit, but the two options have different paths. There are different benefits, detractions and practices to each path. One point that might make clients favor developers is that developers do not rate clients like mortgage lenders do, they "sell him [the client] his dream with a pen and a check book" (Mortgage company officer). When it comes to repayment default, there are more ways to pressure a client in default with developer installments than with mortgage repayments. For example a developer can cut off water and electricity to a specific unit, but a mortgage lender has no such control

(Real-estate developer officer).

A senior official at EHFC and one of the founders of the mortgage market in Egypt believes that developers have several gains on housing finance that mortgage programs do not. Developers offer discounts on cash payments, and the buyer does not realize that this discount is the same as what a mortgage interest rate would have been. Furthermore, there is more amicability between the client and the developer than between the client and the mortgage lender. Developers are in favor of mortgage finance only when their sales are low. But as long as their market is booming, "they are having their cake and eating it too" (Mortgage company officer). The EHFC official further claims that developers need to be regulated to work within certain parameters in order to safeguard the end user. Controlled off-plan sales were what saved the Egyptian real estate market from the 2009 financial crisis (Mortgage company officer). One lender argues that if there is an efficient mortgage finance program, no one will ever knock the door of developer installments; but there is a need for proper guidance and proper education (Bank officer).

e. Availability of data

The Egyptian Financial Supervisory Authority (EFSA) website was updated recently, during the first quarter of 2012, to reflect the merger of the various supervisory authorities and publish data (Regulatory agency officer). It now displays detailed data of the mortgage market in Egypt, including volume, division by income level, geographic area, and by type of lender all in transparent quarterly reports. When questioned about availability of data, one mortgage lender, Tamweel, claimed that in the early years of mortgage in Egypt, specifically 2007, there were only two preceding mortgage companies (Taamir and Egyptian Housing Finance Company) so data might have not been available, but nor was it needed (Mortgage company officer).

f. Islamic mortgage finance

According to credit rating agency Moody's Investors Service, the global Islamic finance market has been growing about fifteen-percent every year for the years between 2005 and 2008. In 2008, the worldwide worth of the Islamic finance market was at $700 billion. Many renowned finance names, such as Citigroup, HSBC, and Deutsche Bank have affiliated themselves with Islamic finance groups. Islamic banking in the Gulf accounted for twenty-five percent of the global market share in 2011, according to the Ernst & Young World Islamic Banking Competitiveness report (Islamic Finance Middle East, 2011).

While Al Azhar Institute in Cairo does not prohibit conventional banking, there stricter interpretations of the religion that prohibit all forms of interest. Consequently, Islamic banks avoid interest by treating loans as leases and profit-sharing arrangements (Wiseman, 2008). There are several principles that determine whether a loan adheres to Islamic Shari'ah Law. First, the loan must not require the borrower to pay interest; the loan must demonstrate that the borrower and the lender equally share risks, with no pre-determined return to the lender; the loan must be of assistance to society in some way, even if helping in trade services and most commodities; and the loan must not allow room for uncertainty (Ring, 2003).

While Islamic finance is most in demand in Muslim countries, especially the Gulf, it is also in demand where Middle Eastern investors take their business. Therefore, Islamic finance options are available in the UK and the US. The demand for Islamic finance in non-Muslim parts of the world is demonstrated in the (then) giant Freddie Mac buying Shari'ah-compliant mortgages in 2001. In 2007, Freddie Mac had bought over $250 million in Islamic mortgages (Wiseman, 2008).

In Islamic banking, the bank buys the property from the seller and rents it to the buyer. The buyer pays a sum each month, part rent and part installment towards ownership. This way, the three-party agreement and registration issues disappear. It is a simple process of one entity buying a piece of property from another and renting it to a third. The problem with this method is that as long as the buyer is repaying the bank, the unit is a bank asset that raises balance sheets. There is also the CBE regulation that banks cannot own assets except for activity, for example, to use as a bank branch. But even those problems have solutions; one is starting company, or a Special Purpose Vehicle (SPV) to do the lending on behalf of the bank and to own the assets (Bank officer).

D. Problems and barriers

Interviews with mortgage professionals, including some of the most prominent founders of the market, heavily concentrated on problems and barriers associated with the mortgage market. This was the case not because interviews were guided by problem issues, but because interviewees had more to say on the subject than anything else. One former head of a major mortgage division claimed that the scope of problems in the mortgage market starts with registration and ends with repossession and is inclusive of everything in between (Bank officer). Another prominent professional claimed that there is not only a lack in information and transparency, but also a lack in vision (Mortgage company officer). While the two statements summarize the faults with the mortgage markets, detailed accounts of where the problems lay are discussed below, and followed by recommendations to better housing finance by the same professionals who pinpointed the barriers.

1. Infrastructure: Documentation and Registration

Property registration is the single agreed upon barrier to mortgage finance within the scope of this research. Registration is a significant issue to mortgage finance for two reasons. One, the mortgage law specifies that only units that are registered or eligible for registration can be financed. Secondly, only about ten percent of all real estate property in Egypt is registered. One lender claims that barriers to mortgage housing finance are related to infrastructure, especially the issue of registration. Sixty to seventy percent of the processing effort of mortgage lending is legal documentation. Ninety-percent of the urban real estate market remains unregistered despite the amendment of registration laws and regulations (Mortgage company officer). Registration is further important to mortgage finance as it is the gateway to collateral and guarantee for the mortgage (Regulatory agency officer).

Problems specific to registration can be summed up in the time its takes to register a unit, the complexity of the process, and the cost. The length of time it takes to process a mortgage is not due to the banks, rather on part of the regulators, especially the notaries. A major problem associated with time is that some documents expire during the mortgage process and must be reissued, which further complicates the process (Bank officer).

One mortgage lender claims that the problem with registration is not just in the paperwork, but people were not registering their property to avoid consequent and associated taxes and fees (Bank officer). Also, there is no incentive for developers to register their land and individual registration fees remain high. The announced flat rate of maximum LE2000 is not the reality. There are other associated fees, up to LE5000 in legal fees, not to mention what is still being paid under the table (Mortgage company officer).

Registration also becomes a major barrier to mortgage finance in areas outside of Cairo. For example, land in areas like Sharm el Sheikh could be attractive for mortgages, especially for expatriates in retirement. However, it is not eligible for registration because it is not owned, rather occupied under a usufruct scheme for ninety-nine years. (Bank officer). So such areas, under Law 148, are not eligible for mortgage finance at all.

2. Deposits, loans, and tenor mismatch

Another problem that was brought up in most interviews is the tenor mismatch between deposits and loans. Lenders very much realize that there is a problem with mortgages in short-term deposits and long-term loans (Bank officer). Aside from investment projects, banks find funds from their depositors, who are not working on the same long-term plan of mortgages. With bank loans, ten years is considered long term but the mortgage market is different (Mortgage company officer). Another problem associated with mortgage tenor is that since employment contracts are not fixed- most are for two years or some limited time duration- it becomes difficult to guarantee a mortgage for the long-term duration of repayment (Regulatory agency officer).

3. Lack of information: mortgage concept and data

One of the problems associated with mortgage lending is that the concept of mortgage is not clear. Even to banks, the concept of mortgage is still very new and its process is not yet well known.(Bank officer). Even mortgage professionals do not always understand the product, and thus cannot sell it. A mortgage is a product that needs one-on-one communication (Mortgage company officer).

Not only is the concept not clear, but neither are its components. For example, interest rate as a concept is one of the barriers to more widespread mortgage finance. With interest, people think they are paying more unnecessarily. This is also similar to bank deposits, which clients think are profitable but that is not true because of inflation. “It is in the Egyptian culture to want to profit without allowing others to profit, but it is, or is supposed to be, a mutual benefit relationship,” Ahmed Maamoun, Marketing Specialist at Tamweel Mortgage Finance (Mortgage company officer).

Some lenders claim that there is no awareness of mortgages, and no government promotion. The government started a program through Law 148, but it did not notify the public- the people who need it do not know about it (Mortgage company officer). The unfamiliarity with the mortgage law places the burden of its understanding mostly on legal professionals rather that direct sellers and users of mortgages. The fact that no one understands the process other than lawyers becomes problematic. There are no clear rules for registration and it remains complicated (Bank officer). Many lenders argue that there a simply not enough mortgage awareness, it is not a well-promoted product (Mortgage company officer).

Since notaries do not understand mortgages as well, there are constant requests for the buyer and seller to keep coming back for more information as needed by notaries, which becomes a hassle. Banks then become cornered, they have already made a loan while the paperwork is pending. This is partly due to the huge difference between what the written regulation and process are and reality. For example, one document needed to complete a mortgage is a statement of the first transaction on any piece of property. This, according to one bank, is not mentioned in Law 148. Also, there are many legal loopholes. For example, a client can take an additional mortgage from another bank while the paperwork for the first mortgage is still being processed (Bank officer).

Another aspect of information that is lacking in mortgage lending is proof of income. Some lenders argue that proof of income is difficult to determine accurately because Egyptians tend to avoid taxes, so a lot of activity goes unrecorded (Bank officer). According to the one regulator, it is not possible to get a mortgage loan without proof of income (Regulatory agency officer). If accurate income cannot be determined, it sets in motion a domino trail of why a mortgage loan would not go through. This starts with the match between a buyer's capability and the value of the prospective unit, and goes on to the tenor term and interest rate, all of which are pillars of a mortgage loan that heavily depend on an accurate income calculation.

When it comes to mortgage data and the volume of the market, there are more inaccuracies. EFSA numbers are not accurate as a result of duplication. For example, if a mortgage company makes out a loan that it refinances through a bank, that same loan is counted twice and thus increases the overall volume of mortgage lending (Mortgage company officer). This misguides lenders, buyers, sellers, and regulators of the market. Data duplication is a fact known to most mortgage lenders and some admit that mortgage data is, and will continue to be, a problem. Since mortgage data, both on the side of the unit- due to registration- and on the side of the borrower- due to proof of income- is inconsistent and inaccurate, rejection can be a result of the applicant or the unit (Mortgage company officer).

4. Mortgage training and education caliber

When addressing mortgage finance in Egypt, mortgage professionals and their level of mortgage knowledge and education play an important role. Although there are evident leaders, found among the founders or early professionals of the market, they do not seem well supported by strong teams. In fact, some claim openly that there is a lack of good caliber mortgage professionals. There is a need for people who can sell it from a technical point of view and who can simplify it for the client (Mortgage company officer).

One prominent lender claims that not only are the lending professionals lacking in strength, but also the regulators' employees are often not strong enough to properly review the work of mortgage professionals. Mortgages are also difficult partly because education and training have been overcome by routine (Mortgage company officer). Some lenders claim that training courses have lost credibility with lenders, so sending employees can be a waste of time and money. Even courses offered by the EBI have been described as too theoretical (Bank officer). In fact, lenders claim that their employees can be better trained on the job than in a course. One mortgage professional provided a particularly interesting example. At a mortgage-specific course at Harvard, the mortgage employee was seated close to the Vice-President of The Philippines and the Vice-President of China. This scenario was given to exemplify how other countries consider mortgage education is of utmost importance, to send such high officials to training courses. In Egypt, a credit course is possible but not much specific to mortgage. Those who take such courses are only employees of one institution or another with not much decision making capabilities (Mortgage company officer).

5. Cost of mortgage

Even though the cost of mortgage may be clear: the cost of the unit in installments plus interest over a certain duration, there are also many associated costs. Not only the interest rates are high, but there are many other associated fees such as administrative and notary fees, and these associated fees push mortgages further away from the reach of those who may need it most (Regulatory agency officer).

Some banks do realize that mortgages are intended for different levels of income, but claim that the current regulations are only applicable to high and middle income (Bank officer). One factor that drives up the cost of mortgage is that real estate prices are high, at a level that is unmatched by low income levels that have not increased nearly as rapidly. Prices of components of real estate, such as steel and land, have increased, and are burdens on the end user (Mortgage company officer). The fact remains that the majority of Egyptian salaries are too low and so available units are too expensive for them (Bank officer).

Another major factor that raises the overall price of mortgage is the interest rate. Currently, most lenders provide mortgages at a decreasing interest rate of about fourteen percent, on average. While lenders know such rates are very high for mortgage, they are partly a result of the high levels of inflation in the country (Mortgage company officer). It is not only inflation associated with high interest rate, but also the high cost of money in Egypt. For example, treasury bills are priced at sixteen-percent, so the lending rate should be even higher than that since lenders make their profit from the interest rate spread. For example, if a bank receives deposits with nine-percent interest rate and gives loans with eleven-percent, it is profiting on the two-percent difference, after allowing for losses and processing costs. Thus the cost of money raises interest rates, not the banks (Mortgage company officer).

Aside from costs that are burdened on the end consumer, high costs also drive lenders away from promoting mortgages as much as they would. High provision that increases with payment delays is a burden on banks that increases as their loan portfolios grow (Bank officer).

Some lenders are more optimistic and adamant that the mortgage market can still grow. Others are not so optimistic. One lender claims that there is not much hope for mortgages as a retail product. It is the least selling retail product, versus credit cards and car loans, which are highly more profitable to the bank (El-Banna, Mohamed. Personal Communication. April 2, 2012). However, that claim is based on mortgages as a retail product. There is a different setting and scenario for mortgage as a business line on its own, to be discussed in later sections.

6. Foreclosure and courts

Lenders move to foreclosure procedures only after the borrower in default is unresponsive and unwilling to repay the remaining amount of a mortgage loan. It is not to the benefit of the lender to move to foreclosure and even to reclaim a unit, but lenders do so when they do not have another choice. Lenders are financial institutions, not real estate sellers and buyers. It is in their best interest that a borrower continues payments according to schedule (Mortgage company officer).

Foreclosure is problematic due to its long process, up to a year average, and associated costs. Some lenders claim that this is the fault of of the Ministry of Justice, which should support lenders not stand in their way when trying to foreclose on a property (Bank officer). Other lenders claim that the difficulty with foreclosure is embedded in the fact that, under Law 148, foreclosure is only theoretical. There have only been four or five foreclosure cases in the entire mortgage market since the law was implemented. Even judges are confused between the mortgage law and the older rent law (Mortgage company officer).

Other lenders agree that the process of foreclosure is a driving force away from mortgages, citing the following scenario of payment default Other than a ban of the sale of the unit in question, the bank really has no control over foreclosure. Court cases can take years. Also, if a borrower defaults then leaves the country, there is no way for the bank to find them. It is a complicated process that needs the approval of the prosecutor general to, for example, arrest someone at the airport; a process that involves the CBE along with the police. Again, it is a hassle that drives the bank further away from mortgage loans (Bank officer). Even though lenders collect post-dated checks worth the repayment amount, these checks are a pressure tool but no good as collateral. The lender does not want a legal case against the borrower, it is to the benefit of the lender for payments to continue; there is no gain by sending a borrower to prison because of unpaid debts, the debts remain unpaid (Bank officer).

Regulators are well aware that foreclosure is an obstacle in the mortgage law. One example of a foreclosure case is the famous Ahly Bank towers on the Nile Corniche. The bank foreclosed on the two buildings due to borrower default, and eventually turned them into the bank's headquarters. However, the foreclosure process lasted about fifteen years (Regulatory agency officer). In foreign mortgage markets, the collateral is valid guarantee. Here, there is always the risk of difficult foreclosures as well as the risk of loss of income (Mortgage company officer).

7. Mortgage culture

When discussing the problems associated with the mortgage market in Egypt, many lenders and regulators provided the same, simple statement that, "We are not a mortgage culture" (Regulatory agency officer). One particularly prominent lender was sure enough to make that their opening statement, even though the company is reportedly performing well. While lenders realize that mortgage is similar to rent, they claim that people do not understand that concept. Mortgage installments are close to rent, but it is the concept of debt that differs. Clients do not like to be indebted. However, the debt is actually to the clients' benefit. Instead of paying rent over the years and receiving nothing but occupation right, after years of paying mortgage installments not only would the clients have the right of occupation of the unit, but also ownership of the unit after mortgage payments are complete. While mortgage clients are actually making an investment by taking a mortgage, the concept of the client, or the borrower, as an investor is difficult to understand (Mortgage company officer).

Some lenders further claim that there is a public, general assumption that mortgage loans are only another form of government control (Bank officer). The purchase with a contract over so many years and extra payments, as interest rates are perceived, may seem too controlling to many prospective clients. The mortgage culture issue spreads even further. Egyptians may be pro ownership, but usually are interested in units that do not match their income, for which neither direct purchase nor even mortgage would work. Not only are aspirations mismatched with affordability, there is a further mismatch between supply and demand, and that is a major constraint to the mortgage market. What is available is neither what is needed nor what is affordable (Mortgage company officer).

8. No leader

The mortgage market in Egypt has been described as a “fatherless child” (Mortgage company officer). In other words, there is no patron for mortgages, be it a person or an organization or even a single model to follow. There are too many component ingredients to the mortgage industry. Properties are managed by the Ministry of Housing. Land has two components: the Ministry of Housing through the New Urban Communities Authority (NUCA) and governorate offices. There is also the component of Space Surveys, that define in detail the land and unit dimensions of a property, and are under the Ministry of Irrigation. Lending is managed through the financial sector, through banks and companies and regulated by the CBE and EFSA. Property and registration are on part of the Ministry of Justice. There is no national agency specific to the entire mortgage process, so the process as it is becomes a waste of time and effort (Mortgage company officer). All parties involved, including the Ministry of Housing and the Ministry of Justice, want to be the owner. Therefore, they are consistently obstructing each others' work. There is not collaboration and no synchronization. One lender suggests that it is only logical for mortgages to be under the Ministry of Housing, as the owner of all land as long as it is still unpaid for (Bank officer).

Also, there is more than one regulator. The mortgage market is controlled by the CBE and EFSA, as well as different bureaucracies within the government (Mortgage company officer). Several lenders voice the complaint that even the role of EFSA is not clear, whether it is a regulator or a promoter. Some believe that for now and at least until the mortgage market is more both active and stable, it should be a promoter (Mortgage company officer).

9. No securitization

A major problem with the mortgage market, at least of lenders, is that the mortgage process stops at a critical stage, which is securitization. Securitization is the bundling and sales of mortgages to the secondary market. The mortgage market has been described as lacking components. Lenders worldwide benefit through securitization, when the lender becomes a middleman profiting off differences in interest rate (Real-estate developer officer).

The single specialized mortgage refinance company in Egypt agrees that the core of mortgage markets worldwide is the transfer of the loan from the lender to the refinancer to the secondary market. The case should be "book the business then get it out of your books" (Mortgage company officer). In Egypt, there is only one mortgage refinancer. In active mortgage markets, there are many more refinancers, including mortgage brokers. The role of the refinancer should be to gather mortgages from different originators, bundle and securitize them and release bonds for their value. Secondary markets are important because investors have the liquidity to keep the mortgage market active, and their bonds are secured by the mortgages (Mortgage company officer). There is agreement between many lenders on the dire need to reach the state of securitization, but some claim that it will never happen as long as each institution is working in isolation of others (Mortgage company officer).

10. Other problems

While institutions participating in this research shared the above problems and barriers of the mortgage market, there are many others issues that were only realized, or noted by fewer than the majority. Some of these additional issues are highlighted below.

The mortgage market is centralized, through branches of mortgage companies, in Cairo, with no access from other governorates. Only one or two mortgages lenders have branches in Alexandria (Mortgage company officer).

Islamic banking is now very much in demand. This affects the ordinary mortgage market differently from other countries, where people do not tend to ask about religion in banking (Bank officer).

As a result of so many regulations, there is no more mortgage product. The CBA and former Mortgage Finance Authority (MFA) released a product without accurately studying and assessing the geography and housing data of Egypt. Policies were set without inspection of the housing supply (Bank officer).

Due to the set up of the Egyptian labor market, the income flow for the borrower is never consistent for the duration of mortgage tenor. It becomes important for the lender to react accordingly, which creates more fluctuations in operations than necessary (Mortgage company officer).

There are a number of new barriers to mortgage finance that have appeared post the 2011 revolution. The rise of illegal land developers has presented new competition to existing developers, further cramping mortgage finance. Another such new barrier is that people are more unsure of the future now than before, and do not want a long-term burden of a loan (Mortgage company officer).

The model of real estate sales is very unique in Egypt. Here, most sales occur off plan, before the construction of the actual units. There is no physical unit to transfer as an asset. The way the mortgage law and regulations are set make it impossible for most selling to happen through mortgages (Real-estate developer officer). Also, the 2008 utilities amendment to mortgage regulations stopped all bank financing in new cities (Bank officer).

Rumors associated with foreign developers about money being drawn out of Egypt have served to further slow down the growth of the mortgage market. Such rumors have led to tightened CBE surveillance that financing is reaching end users (Bank officer). As regulator control and surveillance is tightened, lenders are discouraged from pursuing the mortgage market deeper.

The real estate market is perceived by regulators as highly volatile and risky. The risk is partially due to the long time period associated with a mortgage loan combined with the devaluation of real estate prices over time (Regulatory agency officer).

Some lenders claim that employees of notaries often encourage halting of mortgages. They are not supportive of the market activity and regard it a hassle. Furthermore, they are working in outdated methods.

Mortgage lenders take on two risks. One is the client defaulting. The other is the developer not completing construction, which is a problem because most demand for mortgages is in new cities (Mortgage company officer).

VI. Recommendations

As the case with barriers, different players in the mortgage market shared many of the same recommendations. Recommendations from those involved are more important than anything that can be read or any models that can be applied. The opinions of those who have been involved, who know the process and its specifics inside out, can be considered the most realistic guidelines to improving the status mortgage market in Egypt.

A. Awareness

Many lenders agree that collective mortgage awareness is long overdue. This includes awareness by the market regulators and lenders, and mostly by the intended clients. One mortgage company comments on overdue awareness by clarifying that advertising needs to come before the product, not after it (Mortgage company officer). Another mortgage company is experimenting with the possibility of a national mortgage awareness campaign, but it is still at the idea phase (Mortgage company officer). The Egyptian Banking Institute (EBI) is a provider of mortgage training and coursework, and also realizes the lack in awareness. They claim that, at least on the short term, mortgage awareness campaigns should target those of age to be bankable. Nevertheless, the concept being bankable has to start from school education (Regulatory agency officer). This includes even slight education of the financial market and its different instruments so students are brought up with some understanding and not complete obliviousness to finance. While lenders know awareness is lacking, many are not hopeless. A leading lender believes that with increased work on mortgage awareness, it will become part of our cultural, as was the case with credit cards and car loans that slowly infiltrated people's behavior (Mortgage company officer).

With discussion of recommendations, different market players specified divisions of roles.

B. Areas of work on the part the government, including mortgage market regulators:

Most recommendations for government actors and regulators are specific to the documentation aspect of mortgage lending. Many lenders realize that property valuation is problematic and some recommend that the government must change the infrastructure related to appraisers, particularly the space surveys authority which is, very much inconveniently, under the Ministry of Irrigation (Mortgage company officer). Another lender recommends the privatization of space surveys. It now takes up to six months to get a survey date, which slows down the entire mortgage process, a privatized service would be more dedicated and efficient (Mortgage company officer). Another lender claims that the restructuring of mortgage-related institutional infrastructure is so vital that one recommendation is to start over. The lender states, "Fixing the mortgage situation must start with infrastructure: do this first for five years then look at mortgages" (Bank officer).

The role of regulators should also entail ironing out problems with New Urban Communities Council NUCA and enabling it to have real enforcement on units (Mortgage company officer). NUCA is particularly important to mortgage lending because most demand of mortgage finance is in the new cities, which are regulated and managed by NUCA. However, NUCA has limited decision-making capacity.

Several lenders made recommendations specific to the role of EFSA. EFSA should help facilitate the mortgage procedure. It must become more advanced as an authority of the government. For example, EFSA insists on lenders using specific, outdated forms instead of programs like Microsoft Excel (Mortgage company officer).

Other lenders agree that instead of constantly tightening controls on lenders, EFSA should market the mortgage product (Bank officer). One suggestion of promoting mortgages is the consideration of tax exemptions for employees who have taken a mortgage (Mortgage company officer). Lobbying for such policy change can best be achieved through the efforts of a regulator of the mortgage market.

With regard to legislation, specifically Law 148, some lenders claim that it must be revisited and changed to match the reality of the housing market. Moreover, regulators should consider the period since the implementation of the law a 'demonstration period' and listen to lenders for feedback on that period (Bank officer).

C. Areas of work on the part of lenders and mortgage professionals:

While most lenders believe they are doing the best they could under the current regulations and market environment, some have improvement suggestions. For example, one lender claims that since mortgage in Egypt is tailored and case-specific, it is very important for mortgage professionals to have a legal background and to speak the legal language. A legal background is also important due to dependence of mortgages on legal documentation (Mortgage company officer).

Another recommendation is that, collectively, the lenders need to standardize documentation and improve overall service quality to be more user-friendly; and being more user-friendly is a result of standardized documents and an improved service quality. "We need to all stand on the same side," claims Bassiouny, and standing on the same side starts with standardizing documents (Mortgage company officer).

As a regulator, EFSA has more suggestions for lenders. It believes that the mortgage product should be improved to fit most potential borrowers. This includes the reduction of fees and the service being made smoother. Lenders should participate in policy change along with EFSA as they are the ones in the market and know it better (Regulatory agency officer). However, in its criticism of the high cost of mortgage, EFSA does not note that a lot of mortgage-associated fees are not charged by lenders, but rather as a cost of legal fees. And while EFSA claims that lenders should participate in policy change, none of the lenders participating in this research noted that EFSA lends a hearing ear.

D. Synchronization

Several market players made recommendations associated with the overall synchronization of the market. Such synchronization must occur at different levels. First, there must be synchronization between authorities. Lenders are a tool in the mortgage market, and not the creator. New, harmonious policies must be implemented (Bank officer). Since every ingredient in the mortgage market has seemed to demonstrate a major problem, it is important that the market must be seen in a synchronized view from the top. Synchronization does not necessarily mean centralization. While some mortgages professionals would like to see a single entity in charge of the whole mortgage market, others have smaller hopes. For example, even if the mortgage market is never centralized, there should be, at least, specialized mortgage notaries (Mortgage company officer).

One professional made the recommendation of the Egyptian mortgage market adopting the Canadian mortgage model. This includes establishing a national agency for mortgage finance to undertake the responsibility of implementing a national plan. This agency should have an executive role, as in to have the capacity and authority to fully execute its plan (Mortgage company officer). Other professionals agree, with one citing that mortgage finance is a tool and it needs a platform (Mortgage company officer). Such a national agency would be a fitting platform.

E. Other recommendations

Mortgages will be more successful when people live according to needs not wants. “Everyone wants to live in three-hundred square meters when all they really need is eighty square meters” (Mortgage company officer).

The mortgage market has been functioning in the US for forty-five years, in India for fifty-five years, in Canada for fifty years, and in the UK for forty years: these countries have nearly surpassed most problems (at least before the 2009 collapse of the US secondary market) and should be used as models. However, our infrastructure is different, especially when it comes to property registration (Bank officer).

One particularly interesting recommendation for the mortgage market was a suggestion to resort to a different type of financing altogether, particularly, the adoption of Islamic banking for mortgages. Islamic mortgages, because of rent-based schemes, would allow the market to skip most of the processing effort in legal work (Bank officer).

VII. Research Implications and Conclusion

Findings lead to prove one part of the hypothesis for this research, institutional immaturity is behind the lack of use of mortgages as a housing finance mechanism. Most, if not all of, the barriers cited by the experts and prominent players of the market lead back the issue of institutional immaturity; to name a few, lack of synchronization, lack of a secondary market, lack of leadership, difficulty in the foreclosure process, and the cultural drive away from mortgages are all signs of an institution that is not yet fully developed, or immature.

While the security aspect of the hypothesis of this research- a lack of security on all sides involved that result in a cyclical trend away from mortgages- did not prove true as strongly as the institutional immaturity part, the assumption behind it led to other answers that are very much true. Barriers to efficient housing finance could be summed up into lack of synchronization in the institutional structure for mortgages due to incompletely developed policies.

The status of the market as it is implies that mortgages are stagnant, or at least the market is not as active as it should be, at least according to market players' criticisms of EFSA data and claims of double-counting. After such research, some insights are apparent. As long as banks do not feel they have the support of a strong mortgage system, they will continue to be conservative. As long as bureaucracies do not have a strong understanding of modern-day mortgages, they will continue to cripple market movement. And as long as the market is crippled by inefficiencies, it will not attract investors, whether in the primary or secondary markets.

Research also implies that the mortgage market cannot function efficiently as long as it is as segmented as it is under its current standing. As noted above, at least five different agencies operating under various departments of government are involved in the process of registration alone. As described by research participants, each is pulling the mortgage market into a different direction and thus may offer one explanation to why the market moving with such difficulty.

Rule of law has an impeding influence on the mortgage market in the case of Egypt. Rather, the weak rule of law is further hindrance to the stagnant market. When it takes years to foreclose on a property, as is the case at present, banks and other financiers can be easily discouraged from mortgage finance. Both buyers and sellers choose less complicated finance and sales routes that minimize legal procedures and the role, or rule, of law.

Research demonstrates the importance of listening to players from within the market. Collectively, there seem to be some very solid ideas about how to take the mortgage market forward. It is important that the experience of these players is utilized in policy change. The blame for market performance cannot be blindly placed on regulators being too bureaucratic and inefficient or on banks being too conservative or on misguided consumers. There is the issue of policy that was not set right in the first place. Actors cannot be blamed for lack of adequate performance in an unsuitable environment. Successful policy must be made to fit the status quo. If the housing supply cannot be changed, the policy should fit it from the beginning. Either the infrastructure should be changed, which in the case of Egypt's real estate stock, is not doable, or the corresponding policy. Change in policy is especially relevant to new communities as city planning is not only selling land and building roads and utilities, but also setting a plan for the movement of population into new communities.

Support for policy change has to come from both regulators and lenders, who both have a clear understanding of why the market might not be performing up to standard. As many lenders have claimed, starting over with the mortgage law is optimal. Members of regulating institutions, lending institutions, and developers must be listened to in this policy change. Since change in regulations can happen through ministerial decrees but a change of law must come through parliament, it is vital that parliament listens to members of these groups. The formation of a dedicated group, possibly through the already existing mortgage association, as an advisory board to parliament policy change, would be highly beneficial.

When assessing the mortgage market from a policy perspective, we have found that there are numerous implications and lessons that can be applied to other areas of policy making and policy change. First and foremost, it is crucial that new policies are made to fit the existing state of affairs. Also, there must be cohesion between the different players associated with policy; this includes the industry that policy affects and its regulators.

While this research has not led to a definitive solution or set of solutions to problems in the Egyptian mortgage market, it does pinpoint those problems based on real experiences, possibly leading to further research that would lead to tangible solutions. For example, it is important to consider next the possibility and logistics of creating a single, national mortgage agency to undertake the entire process. This agency, like the CBE, would be an independent government body responsible for mortgaged housing stock from registration to foreclosure or repayment completion, and entailing the entire scope of details in between. Also, future research could address suitable mortgage models from other countries that would fit the scenario in Egypt. Instead of different players following different models- for example, EHFC trained by an Indian corporation and EMRC promoting the Canadian model- a unified model to follow would create cohesion in the Egyptian mortgage market. However, deeper research is needed to assess whether a single model is viable.

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IX. Institutional Interviews

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Appendix: Interview Guides

The **interview guide for regulating institutions** was composed of the following discussion topic areas:

1. Degree of enforcement of maximum restriction of 5% of banks' lending portfolio to real estate lending;
    a. Inspection and inspection frequency
    b. Consequences in case of maximum limit exceeded
2. Awareness of volume of mortgage lending in the Egyptian market;
    a. How information is shared among lenders
    b. How [specific] institution compares to other lenders
3. Specification of problems associated with the Egyptian mortgage market;
4. What lenders could do differently;
5. The question of security:
    a. Security concerns and measures of guarantee for lenders
    b. Security concerns and measures of guarantee for borrowers
    c. Government regulations that guarantee security for both sides
    d. Security concerns lacking guarantee
    e. What, if any, extra measures should lending institutions undertake to decrease borrower risk
    f. How should lending institutions treat borrowers with minimal (or zero) credit history
6. Also, if not brought up in discussion, opinions and statements on the following topics:
    a. Property registration, including but not limited to:
        i. How the regulating institution enforces 'eligibility to be registered' rule

ii. Whether the regulating institution provides any assistance to borrowers in property registration

b. Foreclosure, including but not limited to:

   i. Degree of severity by which regulating institution enforces foreclosure

   ii. Whether regulating institution allows continuance of mortgage after a borrower in default corrects payment

   iii. Examples (anonymous) of foreclosure cases, if available

c. Mortgage professional training and education,

   i. Mortgage-specific training and/or education requirement for regulating institution staff

   ii. Internal mortgage-specific professional development

d. Credit bureaus, including but not limited to:

   i. Risk assessment and management

   ii. Examples (anonymous) of rejected borrowers, if available, due to poor credit rating.

The **interview guide for lending institutions** was composed of the following discussion topic areas:

1. Volume of mortgage lending by institution;
   a. Internal awareness (employees of institution)
   b. Degree to which volume of mortgage lending is publicly disclosed
2. Awareness of volume of mortgage lending in the Egyptian market;
   a. How information is shared among lenders
   b. How [specific] institution compares to other lenders
3. Specification of problems associated with the Egyptian mortgage market;

4. What lenders could do differently;
5. How the government through the Central Bank could better regulate;
6. The question of security:
    a. Security concerns and measures of guarantee for lenders
    b. Security concerns and measures of guarantee for borrowers
    c. Government regulations that guarantee security for both sides
    d. Security concerns lacing guarantee
    e. What, if any, extra measures the [specific] institution undertakes to decrease borrower risk
    f. How the [specific] institution treats borrowers with minimal (or zero) credit history
7. How decision was reached by [specific] institution to enter mortgage market;
    a. To what extent is the market meeting expectations of [specific] institution;
    b. How mortgage products have evolved with market penetration and experience;
8. Also, if not brought up in discussion, opinions and statements on the following topics:
    a. Property registration, including but not limited to:
        i. How the [specific] institution enforces 'eligibility to be registered' rule
        ii. Whether the [specific] institution provides any assistance to borrowers in property registration
    b. Foreclosure, including but not limited to:

i. Degree of severity by which [specific] institution enforces foreclosure

ii. Whether [specific] institution allows continuance of mortgage after a borrower in default corrects payment

iii. Examples (anonymous) of foreclosure cases, if available

c. Mortgage professional training and education,

i. Mortgage-specific training and/or education requirement for [specific] institution staff

ii. Internal mortgage-specific professional development

d. Credit bureaus, including but not limited to:

i. Risk assessment and management

ii. Examples (anonymous) of rejected borrowers, if available, due to poor credit rating.

The **interview guide for developers** was composed of the following discussion topic areas:

1. Awareness of volume of mortgage lending in the Egyptian market; including how information is accessed by or made available to developers
2. Which, if any, lending institutions maintain partnerships or agreements with developer
    a. Agreement details and terms
    b. Scenarios where collaboration was or was not successful
3. Details of different payment options with a focus on comparison of installment plans to mortgage plans offered by lenders

4. Specification of problems associated with the Egyptian mortgage market;

5. The question of security from the perspective of the developer as a sales agent:
    a. Security concerns and measures of guarantee for lenders
    b. Security concerns and measures of guarantee for borrowers
    c. Government regulations that guarantee security for both sides
    d. Security concerns lacking guarantee measure for lenders, borrowers, and developers (as sellers)
    e. What, if any, extra measures the developer undertakes to decrease buyer payment risk in the case of payment in installments
    f. How the developer treats buyers with minimal (or zero) credit history in the case of payment in installments
6. Also, if not brought up in discussion, opinions and statements of the developer, as a seller, on the following topics:
    a. Property registration, including but not limited to:
        i. How the developer manages registration of units
        ii. Whether the developer provides any assistance to buyers in property registration and transfer of title
    b. Foreclosure, in the case of default of installments in an installment payment plan, including but not limited to:
        i. Whether title transfers are completed with outstanding installments yet to be paid by the buyer
        ii. Degree of severity by which developer enforces foreclosure; grace periods
        iii. Whether developers allows continuance of purchase after a buyer in default corrects payment installments
        iv. Examples (anonymous) of foreclosure cases, if available

c. Real-estate sales professional training and education,

    i. Payment plan-specific training and/or education requirement for [specific] developer staff

    ii. Internal sales-specific professional development

d. Credit bureaus, including but not limited to:

    i. Risk assessment and management

    ii. Examples (anonymous) of rejected buyers, if available, due to poor credit rating or demonstration of inability to pay in full for unit(s)